Department of the Secretary of State of Canada

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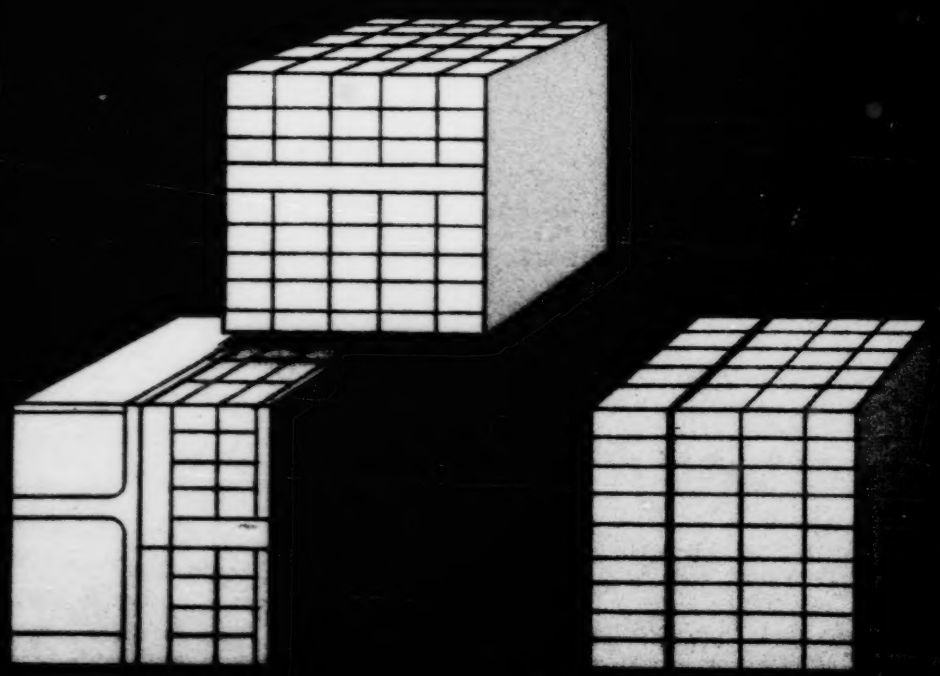

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The *Financial and Accounting Guide for Non-Profit Organizations* is designed to assist users to manage their financial resources within a sound financial and accounting framework. Primarily of interest to organizations with limited or no professional accounting personnel, this guide shows the basic ingredients of accounting and finance.

The guide provides a basis for understanding the principles, procedures and techniques of accounting and finance. Managers and bookkeepers may learn how to record and monitor the organization's financial activities. Users will have a reference document for expanding their accounting and financial skills.

This guide contains six chapters. Chapter 1, **Financial Planning**, describes the preparation and uses of a budget. Chapter 2, **Bookkeeping**, covers the accounting techniques. Chapter 3, **Management of Cash**, addresses the issue of control of cash and its related specific requirements. Chapter 4, **Accounting for Capital Assets**, presents the requirements for the accounting and reporting for physical assets. Chapter 5, **Financial Statements**, explains how financial statements are prepared and how to use them. Chapter 6, **Internal Control**, illustrates the minimum controls an organization should implement to safeguard its assets and summarizes the foundations of accounting and its main components.

The following chapters show, step by step, that an accounting and financial system can be developed and how it can be used by an organization.

1

A budget is a forecast of anticipated revenues to meet the expected expenditures and a forecast of expenditures that will be incurred in meeting the organization's objectives. The information it contains should describe the organization's activities and projects. Hence, it is often described as the quantitative expression of a planned activity. It encompasses three main areas: budgeting, cash flow forecast and budgetary control.

1 Budgeting

1.1 Purpose

A budget serves three main purposes: to determine the financial, human and other resources required to carry out the plans drawn up to achieve an organization's objectives; to obtain approval of programs and resource requirements from the board of directors; to provide a basis for budgetary control.

1.1.1 *The budget as a planning tool*

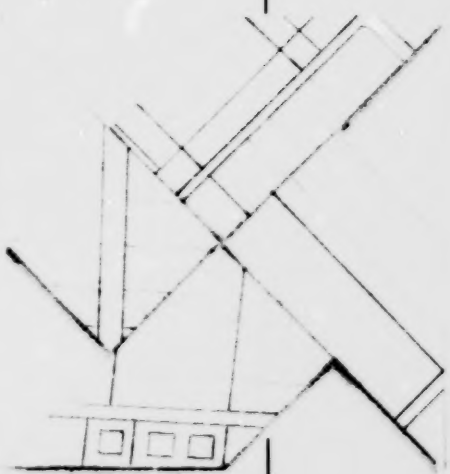
The budget serves as a planning tool by identifying clearly the organization's:

- long term goals and objectives
- new-year objectives
- new-year programs, activities or services to be delivered.

The budget documents the organization's intentions over the coming year. It is not only a financial plan but also a managerial reference document outlining and describing programs and activities and the expected results or benefits from these programs/activities for its members and patrons.

1.1.2 *The budget as a control tool*

The concept of managerial control through a budgetary system is that if managers have time-phased plans, if they periodically account for their actions in relation to plans and if variances are analyzed, then the organization will live within its budget, attain its goals or take corrective action to alter its plans or its



operations according to its funding level. Such a system requires the following:

- a budgetary plan prepared on a basis that shows expected costs for each period of time
- periodic and consistent reporting of actual costs on the same accurate basis for each period of time utilized in the original plan
- a meaningful analysis of variances between planned and actual performance
- corrective actions.

1.1.3 *The budget as an evaluation tool*

The budget establishes a yardstick against which future results can be compared and measured. It aids in determining if benefits derived from a program/activity are worth their costs. The budget is, however, only one element of the evaluation of a program/activity.

For example, suppose that the ABC Association wishes to expand its revenue base through a fund raising activity. Suppose now that the association's goal is to raise $5,000, after expenses, within the local community. ABC believes that a budget of $3,000 is necessary. After the event has taken place, ABC Association raised $6,000 gross, its costs were $3,800 for a net benefit of $2,200. Is this activity a fiasco? Let's study it carefully. ABC Association did not attain its objectives but it did raise additional revenues: $2,200. Were the efforts worthwhile? It all depends. If this marks the first time ABC Association was involved in such activity, then the results could be interpreted as good, considering its lack of expertise in the area of fund raising. However, if this event is the fifth time ABC tried to raise funds, some additional questions remain to be answered such as: Why ABC incurred $800 of expenses over its budget? Is the apparent fiasco due to a lack of awareness, in the community, of the association's intentions? Is there a lack of interest within the community for ABC Association? etc.

As one can see, a budget can serve as a means of assessing an activity but does not provide all the answers.

1.2 Use

The budget can be used by a wide variety of parties such as:

- management, as described in the previous section
- banks: a budget is used to establish lines of credit and to facilitate financing
- governments: it is used to solicit funds and to support such requests
- members: to inform them of the organization's objectives and projects
- the public at large: it is used to solicit donations and to create a public awareness of the organization's impact on the community.

2. Budgetary Cycle

All the operations involved in drawing up a budget can be viewed as a cycle. To make maximum use of the budget, these steps should be followed.

	Before the beginning of the financial year
Step 1	Establish a timetable for the preparation of the budget including specific target dates for each of the following steps.
Step 2	Examine objectives, programs and activities for the period covered by the budget.
Step 3	Consult with those involved in drawing up the budget.
Step 4	Forecast revenues and expenditures.
Step 5	Have the executive review and approve the budget.
Step 6	Have the board of directors review and formally approve the budget.
Step 7	Divide the budget into periods for analysis (monthly, quarterly).
	During the financial year
Step 8	Monthly and quarterly: • prepare financial statements and compare them with the budget • analyze variances and take corrective measures.
Step 9	Adjust the budget in light of important new information. It is recommended that the budget be reviewed at least every quarter if major events affect its usefulness.

3. The Mechanics of Budgeting

3.1 Participation

The preparation of the budget must involve all management levels, especially senior levels.

First, the board of directors must provide guidance to the executive about the objectives and priorities for the new year. Second, the executive must translate the board's intentions into programs and activities. Third, the program directors must cost their planned activities and programs in collaboration with their accountant or senior financial officer. Fourth, a formal plan is then put together including programs/activities descriptions along with related costs.

Quite often, the original budget derived from the above will be reviewed and altered by the organization's executive before submission to the board of directors for final approval. If it is management's intention to minimize the length of the budget preparation, it is recommended that flexible budgets be developed. The flexible budget is a budget drawn up for a specific activity which takes into account changes in levels of the activity and the repercussions which such changes may have on revenue and expenditure items. It may be prepared for specific activities or for the entire budget (for example, if an anticipated subsidy is refused, or if revenues are 20% higher than expected). Such extrapolations allow the

organization to determine the financial risks of certain activities, to change some decisions as a consequence, and to react more rapidly to changes in the original budget. Appendix A of this chapter illustrates how this type of budget can be prepared.

Once approved by the board of directors, the budget becomes an integral managerial instrument which cannot be altered without the board's approval.

3.2 Essentials of a Budget

A budget contains, for each program and activity, a narrative as well as a sub-budget; the sum of which is called *the budget*.

When drawing up a budget, one must ensure that it is:

- *a good source of information*: a budget should be more than just a list of figures; it should include explanations and schedules, backed up by complete documentation; program items should be identified clearly and expenditures must be fully detailed;
  Example:
  Salaries could be broken down as follows:
  - salaries – executive
  - salaries – staff
    - – full time
    - – part time
  - employee benefits
- *feasible*: a budget should be realistic and attainable
- *complete*: all revenue and expenditure items should be identified and should relate to the relevant program/activity
- *useful*: the budget should be useful and easy to use for management; people should neither be slaves to the budget, nor take it lightly
- *flexible*: the budget should allow management to determine what the effect will be on the organization if forecasted revenue is not obtained or if the level of activity is higher than anticipated.

3.3 Budget preparation

The organization must first determine its objectives and priorities for the coming year and then, define its programs and activities. Factors to consider in establishing programs and activities are: the organizational size of the intended program or activity, the need for control of the program or activity, the specificity of the program or activity objectives, etc. The next step is to translate these plans into monetary terms. This exercise consists of the forecasting of revenues and expenditures.

3.3.1 *Forecasting revenues*

The organization must first determine all potential sources of revenue, the possibility of getting funds from these sources and which amounts are most likely to be raised. Organizations with limited access to funding agencies must be careful in assessing the potential revenues, particularly if they have not received funding from these sources in previous years.

Here is a list of some anticipated sources of revenue:

- membership fees
- income from self-financing activities
- interest income on investments
- income from affiliated organizations
- bequests
- donations
- fund-raising campaigns
- rental income
- subsidies from federal, provincial and municipal governments.

The budget narratives must disclose the likelihood of receipt of the expected revenues and not simply the expected amounts. Appendix B of this chapter illustrates this exercise.

3.3.2 *Forecasting expenditures*

Financial statements from previous years can be a useful tool in forecasting expenditures, as they show prior year costs for the same activities.

Certain important factors should be considered:

- changes in activities, such as an increase in services, reduction or cancellation of certain services
- exceptional circumstances
- inflation
- budgeted expenditures must meet the criteria for subsidies that the organization expects to receive.

Refer to Appendix B of this chapter for examples.

3.3.3 *Examples of anticipated expenditures*

Gross salaries

First, identify full-time and part-time positions to be used over the year and then allocate the applicable gross salary to each. Each position should be entered in the budget with the corresponding costs.

Fringe benefits

These are the amounts paid by the employer into funds outside the organization, generally based on the employee's gross salary.

They must include

- the employer's share of the Federal or Quebec Pension Plan
- the employer's share of unemployment insurance
- the employer's share of provincial health insurance
- minimum vacation pay
- Provincial Workmen's Compensation Board.

Travel

Routine travel can be forecasted from the preceding year's figures taking into consideration such factors as: major anticipated changes in activities, variations in travel allowances, inflation, etc.

Forecasts for non-routine travel should be based on the following considerations:

- purpose of the trip
- number of persons travelling
- transportation costs
- meal and accommodation allowances.

Office expenditures

On the basis of previous years, the following costs must be taken into account where appropriate: telex, postage, advertising, photocopying, office supplies, bank charges, leasing of printing equipment and publishing. These historical costs must be revised to take into consideration changes in levels of activity, inflation, etc.

The telephone expense should include installation costs, anticipated long-distance calls as well as regular monthly costs based on the number of telephone lines.

Occupancy costs

Rental: From current rates, make an estimate based on the space requirements and desired location. If the organization signed a lease, it would be wise to check the conditions of the lease (for example: rent increases during the year, escalator clauses, deposit, utility costs and so on).

Owner: Property taxes, mortgage payments (and interest rates when renegotiating a mortgage) must be taken into consideration.

Other costs: Insurance, maintenance, repairs, cleaning, security, renovations, heating and electricity.

Cost of meetings

Anticipate the number of board meetings and related costs. The annual meeting should be shown as a separate item.

Professional fees

Obtain an estimate of the cost of required services for the fiscal year from accountants, lawyers and any other professionals. If these costs cannot be forecasted, a provision should be made and should be fully explained.

Capital expenditures

Determine capital expenditures for such items as facilities, desks, tables, chairs, filing cabinets and typewriters. Wherever possible, obtain estimates.

3.3.4 *Finalizing the budget*
Ensure that revenues and expenditures match. In other words, the amount of expected revenues should equal the expected costs of the programs. If discrepancies exist, it is advisable to review closely the reasons and see where reallocations can be made.

It is also important to identify which activities could be undertaken if more revenues were generated and vice versa. This will provide the board of directors with more information and will clearly establish the priorities which must be addressed.

To determine the consolidated budget of the organization, simply add revenue and expenditure items respectively. In doing so, transactions between programs should be eliminated.

Appendix C of this chapter illustrates the budget of Association ABC for each program. The consolidated budget, along with appropriate explanation, is shown in Appendix B.

4. Cash Flow Forecast

Once the final budget is completed, the organization must then establish a **Cash Flow Forecast** statement. This statement is designed to show *when* the receipts and disbursements will occur so that management, financial institutions such as banks and funding agencies, can determine the short term financing needs of the organization.

This statement is a representation of the budget in terms of movement of funds and monetary transactions. It is simply a list of receipts and disbursements and the dates (or period) at which they will occur.

This statement allows the organization to:

- determine when money must be paid out
- ensure that it has sufficient funds to pay accounts due, such as bank loans
- adjust disbursements based on anticipated incoming funds
- obtain short-term financing.

For preparation of this document, the organization should determine in which month it must make the disbursements and when the receipts are expected. For example, heating costs are usually paid in the winter months; auditor's fees are paid four months after the end of the fiscal year; investment income is received on a set date and so forth.

Appendix D of this chapter demonstrates the usefulness of the Cash Flow Forecast statement. Although, the Association ABC expects an overall surplus, the cash requirements for the months of June, July and August are quite high ($66,830) compared to the expected monthly inflows of cash ($43,500). The association must either request a line of credit, a short-term loan for that period or seek a change in the funding schedule from its funding sources. This situation can arise at any time when there is a delay either in funding or when incurring unexpected expenditures.

The availability of such a statement will be useful to the financial institutions and the funding agencies to assess the association's cash requirements and will facilitate the establishment of financial arrangements that would be agreeable to all parties having an interest in the association.

5. Budgetary Control

A budget should be a time-phased plan designed to control subsequent events. When budgets are drawn up without time-phased plans, and available resources are simply apportioned on an equal basis over each accounting period, it is highly unlikely that a useful yardstick will be available for controlling subsequent events.

For a budget to be effective as a control instrument, both the manager and those to whom the manager reports must be committed to it. The manager should participate in its preparation, and senior management should effectively review the budget so that the approved plan can be regarded as a contract between levels of management to attain certain goals with allotted resources.

The first step in the process of budgetary control is settling upon an approved plan; the second is regular reporting of progress in relation to the approved plan. Reporting should be consistent with the manner in which the plan was produced.

A budgetary control system will be worthwhile only if it leads managers to take corrective action to remedy unsatisfactory performance or plans. Exact adherence to plan is desirable but rarely attainable. Many deviations are minor and will cancel out from period to period or will offset each other. Since a budgetary control system is designed to initiate corrective actions, it should identify only those areas where exceptions are critical enough to warrant managerial action.

For a budgetary control system to be effective, managers should be provided with financial reports comparing their own and their subordinates' operations to date with approved plans. If operations are going as planned, no further action is required. If there are deviations, their significance should be analyzed and explained and alternative courses of action identified. Appendix E of this chapter illustrates an example of a report to senior management.

Variance reports are a manager's own reports. Financial staff can help managers in preparing them and the managers initiate corrective action. Appendices F and G of this chapter are examples of such variance reports.

Variance reports should be considered as a positive means of informing higher levels of management of changing situations that, if ignored, may have serious effects on the attainment of program objectives.

Systems for reporting on variance analysis can be designed in a variety of ways:

- reporting may result from a specific request or may be required automatically on the basis of prescribed acceptable limits of variances between results and plans
- reporting may be based on major categories of expenditures only or on the organization's programs
- reports originating at a lower level of the organization may be aggregated or forwarded directly to a central analysis group that would produce a summary of problems for distribution to all managers
- reports should distinguish between those variances which are caused by new or changed conditions not included in the original budget, such as unforeseen events which the organization must address, and those which result from goals not being achieved according to plan, for which managers are more directly accountable.

Conclusion

Financial planning is an essential function of any organization. It lays the foundation of efficient management of the resources and provides the primary information for the ongoing regular monitoring required to ensure the realization of the organization's objectives. It also establishes the basic ingredients that will be required to develop the accounting system.

Appendix A
Example of Flexible Budget

Activity Seminar-training personnel in financial management, program evaluation and policy development.
Activity, level 1: 3 days for 20 employees
Activity, level 2: 3 days for 15 employees
Activity, level 3: 2 days for 25 employees
Activity, level 4: 1 day for 20 employees

Description	Activity Level 1	Activity Level 2	Activity Level 3	Activity Level 4
Accommodation				
20 people/3 nights @ $40	$2,400			
15 people/3 nights @ $40		$1,800		
25 people/2 nights @ $40			$2,000	
20 people/1 night @ $40				$800
Meals and incidentals				
20 people/3 days @ $30	1,800			
15 people/3 days @ $30		1,350		
25 people/2 days @ $30			1,500	
20 people/1 day @ $30				600
Resource persons				
1 person for Financial Management $400/day @ 1 full day	400	400	350*	200*
1 person for Program Evaluation $500/day @ 1 full day	500	500	450*	250*
1 person for Policy Development $600/day @ 1 full day	600	600	550*	300*
Conference room rental				
3 days @ $90	270	270		
2 days @ $90			180	
1 day @ $90				90
Supplies and coffee				
3 days ($2/day @ person)	120	90		
2 days ($2/day @ person)			100	
1 day ($2/day @ person)				40
Funding required	$6,090	$5,010	$5,130	$2,280

*The resource persons agreed to a lower fee since they were available for less than a full day.

Appendix B
ABC Association
Budget for the year ended March 31, 198X

Revenues			
Government of Canada		$150,000	(Note 1)
Provincial Government		39,500	(Note 2)
Municipality		39,500	(Note 3)
Membership		15,000	(Note 4)
Other Fund Raising	$10,000		(Note 5)
Interest Income	1,150	11,150	(Note 6)
Total Budgeted Income		$255,150	
Expenditures			
Salaries Executive	$50,986		
Staff	89,252		
Employee benefits	14,024	154,262	(Note 7)
Honoraria		2,000	(Note 7)
Travel Executive	$ 5,400		
Staff	11,000	16,400	(Note 8)
Annual Assembly		7,500	(Note 9)
Office Costs Telephone/Telex	2,268		
Photocopy	1,296		
Office Supplies	6,048		
Utilities	3,500		
Postage	864		
Bank Charges	270		
Rent	24,000		
Advertising/Promotion	6,000		
Publishing	6,000		
Printing	800		
Equipment Rental	500	$ 51,546	(Note 10)
Professional Services Seminar	$ 1,500		
Legal	1,000		
Audit	1,250	3,750	(Note 11)
Building & Maintenance Cleaning Contract	$ 7,000		
Insurance	250	$ 7,250	(Note 12)
Capital Expenditure – Acquisitions		1,700	(Note 13)
Miscellaneous		5,000	
Total Budgeted Expenditures		$249,408	
Budgeted Year-End Surplus		$ 5,742	

Appendix B (cont'd)
Supplementary and Supporting Notes
Budget 198X-8Y

Note 1 Federal Government Funding

	Previous year funding	Announced increase	Other commitment	Total	
	$	$	$	$	
Department A	125,000	7,500	–	132,500	Note a
Department B	–	–	10,000	10,000	Note b
Department C	2,320	–	7,500	7,500	Note c
	127,320	7,500	17,500	150,000	

Note a As per the minister's announcement of an increase of 6% for the coming year.

Note b The minister agreed on December 1, 198Y to provide the association with funding of *approximately* $10,000 to upgrade our services to the north.

Note c The department advised us on January 20, 198Z that we cannot expect further funding for the Project ABC; however, it agreed to provide funds for a new project without specifying the amount. Our original estimate was for $10,000. Although negotiations are not finalized, it appears that it is likely the association will get *at least* $7,500.

Note 2 Provincial Funding

This is a grant of $39,500 for our "Project XYZ" for which the present provincial government has pledged $118,500 over a three-year period. This will be the second year that the association is in receipt of the annual grant of $39,500.

Note 3 Municipal Funding

The municipality has pledged a grant equal to that of the provincial government for the above stated project.

Appendix B (cont'd)

Note 4 Membership

The board of directors noted an increase of $3 per member for the coming year (Decision 83-46) for a new membership fee of $15. Last year, the membership fee was $12. It is expected that the association will attract at least 1,000 members which includes a projection of 120 new members.

Note 5 Fund Raising

This figure represents the expected net proceeds from an in-house lottery to be held during the year. The lottery was very successful last year and $9,747 was raised.

Note 6 Interest Income

Interest on our savings accounts will be made from government funds which tend to be received on a lump sum basis. Provincial and municipal funds will be provided as a lump sum payment. Federal funds are likely to be received on a quarterly basis. Last year, $2,747 interest was earned but the interest rates were much higher (16%) compared with the prevailing rates (8.25%).

Appendix B (cont'd)
Note 7 Personnel Costs
Schedule of Personnel Costs

	Level of pay Jan. 31, 198X	Forecasted increase	Expected cost	
Salaries				
	$	$	$	
Executive				
President	26,000	1,560	27,560	
Executive Director	22,100	1,326	23,426	
	48,100	2,886	50,986	
Staff				
Office Manager	18,800	1,128	19,928	
Secretary	9,400	564	9,964	
Field Officers (4 @ 14,000)	56,000	3,360	59,360	
	84,200	5,052	89,252	
Total Salaries	132,300	7,938	140,238	Note a
Benefits	13,230	794	14,024	Note b
Honoraria	–	2,000	2,000	Note c
Total Personnel Costs	145,530	10,732	156,262	

Note a Total salaries increased by a factor of 6% taking into consideration board of directors' decision (no. 8X-34) dated January 15, 198Y.

Note b Benefit costs are historically approximately 10% of total salaries.

Note c Annual assembly resolution (no. 198X-28) to implement a nominal honorarium of $500 for each of the four directors for the coming year.

Appendix B (cont'd)

Note 8 Travel

The following rates have been approved by the board of directors (no. 8X-49) with respect to travel.

Accommodation	Shall be reimbursed at actual cost to a maximum of $32 per night.	
Meals	Shall be reimbursed on a per diem basis as follows:	
	Breakfast	$ 6.50
	Lunch	5.50
	Dinner	15.00
	Maximum daily allowance	$27.00

Estimated Travel Cost

	Transportation	Living Expenses	Total
1. Executive	$	$	$
Three trips by president to meet with federal officials on future funding (4 day/meeting)	1,575	700	2,275
Monthly visits to district offices within the province by president or vice president (12 trips; 3 days/visit)	1,000	2,125	3,125
Sub total – Executive	2,575	2,825	5,400
2. Staff			
Visits to each community within the province where the association has a vested interest (12 communities) (4 visits/community on the average; 2 days/visit (including the seminar described in Appendix A))	2,500	8,500	11,000
Total – Travel Costs	5,075	11,325	16,400

Note 9 Annual Assembly

The costs involved are:

Conference hall ($100/day × 4 days)	$ 400
Logistics (telephone, security)	1,000
Travel allowance to community representatives (2 delegates/community × $150)	3,600
Banquet ($10 × 250 participants)	2,500
	$7,500

Appendix B (cont'd)

Note 10 Office Costs

The following expenses are based on historical cost *plus* an inflationary factor of 8%.

Office Costs

	Historical Cost	Inflation	Expected Cost
	$	$	$
Telephone/Telex	2,100	168	2,268
Photocopy	1,200	96	1,296
Office supplies	5,600	448	6,048
Utilities	3,240	260	3,500
Postage	800	64	864
Bank charges	250	20	270
	13,190	1,056	14,246

Rent

A five-year lease has been signed for the office premises calling for monthly rent of $32 per square foot for the year in the first year with 6% increases in each subsequent year. The association requires 750 square feet for an initial annual rental cost of $24,000.

Advertising/Promotion

It represents estimated costs of advertising and promoting the annual three day seminar scheduled for next March; the annual assembly and the community events. Last year's costs were $5,320. The increase of $680 represents an expected rise in advertising costs, the total cost should be $6,000.

Publishing

It represents the cost of publishing our monthly newsletter. A cost of approximately $500 per issue is expected, which includes layout, typesetting and paper; the total cost should be $6,000.

Printing

Estimated cost of printing tickets for the fund-raising draw. Last year's cost was $775. Only a marginal increase is forecasted this year; the total cost should be $800.

Equipment Rental

The estimated cost of renting a projector and film for the seminar $500.

Appendix B (cont'd)

Note 11 Professional Services

Seminar

A three day seminar for the community representatives will require three consultants at a cost of:

Financial expert	$ 400
Program Evaluation Speaker	500
Policy Development Speaker	600
	$1,500

Note: See Appendix A

Legal Services

The same cost as in the previous year is forecasted for on-going activities as they may arise ($1,000).

Audit

The audit manager of the Firm XYZ notified us last December that the audit is expected to cost $1,250.

Note 12 Building and Maintenance

Cleaning Contract

A two-year contract has been signed with Clean Company at $7,000 per annum.

Insurance

The annual premium for the $25,000 (maximum) policy held for fire coverage of office furniture and equipment costs $250.

Note 13 Capital Expenditures

The following purchases will be made during the year:

1 typewriter	$1,000
1 desk and chair	700
	$1,700

These purchases are for the new project funded by the provincial and municipal governments: Project XYZ.

Appendix C
Association ABC
Budget
For the period April 1, 198X to March 31, 198Y

	Administration and Services to the Community	Co-ordination	Research	Total
	$	$	$	$
Revenue				
• Government of Canada	130,000	–	20,000	150,000
• Provincial government	–	39,500	–	39,500
• Municipality	–	39,500	–	39,500
• Membership	15,000	–	–	15,000
• Fund raising	10,000	–	–	10,000
• Interest	1,150	–	–	1,150
Total – Revenue	156,150	79,000	20,000	255,150
Expenditures				
• Salaries and benefits	88,966	45,296	20,000	154,262
• Honoraria	2,000	–	–	2,000
• Annual assembly	7,500	–	–	7,500
• Travel	5,400	11,000	–	16,400
• Office costs	14,246	–	–	14,246
• Rent	24,000	–	–	24,000
• Advertising/promotion	1,500	4,500	–	6,000
• Publishing	–	6,000	–	6,000
• Printing	800	–	–	800
• Equipment rental	–	500	–	500
• Building and maintenance	7,250	–	–	7,250
• Capital expenditures	–	1,700	–	1,700
• Professional services	2,250	1,500	–	3,750
• Miscellaneous	2,000	3,000	–	5,000
Total – Expenditures	155,912	73,496	20,000	249,408
Surplus/(Deficit)	238	5,504	–	5,742

Note: The expected $5,742 surplus will be used to cover the cumulative deficit as of March 31, 198X.

Appendix D
ABC Association
Cash Flow Forecast Statement for the period April 1, 198 to March 31, 198

	April	May	June	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	March	Annual Budget
Revenue • Government of Canada	37,500	–	–	37,500	–	–	37,500	–	–	37,500	–	–	150,000
• Provincial government	–	–	–	–	–	39,500	–	–	–	–	–	–	39,500
• Municipality	–	–	–	–	–	–	39,500	–	–	–	–	–	39,500
• Membership	1,500	7,500	6 000	–	–	–	–	–	–	–	–	–	15,000
• Fund raising	–	–	–	–	–	–	–	10,000	–	–	–	–	10,000
• Interest	–	–	–	–	–	–	500	200	150	200	100	–	1,150
Total Revenue	39,000	7,500	6,000	37,500	–	39,500	77,500	10,200	150	37,700	100	–	255,150
Expenditures • Salaries and benefits	12,855	12,855	12,855	12,855	12,855	12,855	12,855	12,855	12,855	12,855	12,855	12,857	154,262
• Honoraria	–	–	500	–	–	500	–	–	500	–	–	500	2,000
• Travel	1,280	1,280	1,280	–	1,280	1,280	1,280	2,050	1,280	2,050	2,060	1,280	16,400
• Annual assembly	–	–	–	7,500	–	–	–	–	–	–	–	–	7,500
• Office costs	1,000	900	900	900	900	1,000	1,100	1,300	1,400	1,600	1,700	1,546	14,246
• Rent	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	24,000
• Advertising/promotion	–	600	1,000	300	–	600	800	700	600	400	1,000	–	6,000
• Publishing	500	500	500	500	500	500	500	500	500	500	500	500	6,000
• Printing	–	–	–	–	800	–	–	–	–	–	–	–	800
• Equipment rental	–	–	–	–	–	–	–	–	–	–	–	500	500
• Building maintenance	585	585	585	585	585	835	585	585	585	585	585	565	7,250
• Capital expenditures	–	1,700	–	–	–	–	–	–	–	–	–	–	1,700
• Professional services	–	–	–	1,250	1,000	–	–	–	–	–	–	1,500	3,750
• Miscellaneous	400	400	400	600	400	400	400	400	400	400	400	400	5,000
Total Expenditures	18,620	20,820	20,020	26,490	20,320	19,970	19,520	20,390	20,120	20,390	21,100	21,648	249,408
Monthly Cash Surplus/Deficit	20,380	(13,320)	(14,020)	11,010	(20,320)	19,530	57,980	(10,190)	(19,970)	17,310	(21,000)	(21,648)	n/a
Cumulative Cash Flow from Current Year Operations	20,380	7,060	(6,960)	4,050	(16,270)	3,260	61,240	51,050	31,080	48,390	27,390	5,742	5,742

Appendix E

Financial Forecast
For the period April 1st to March 31, 19XY
Program: Administration and Services to the Community

	Annual Budget A	Year-to-Date Total April-June B	Forecast July-March C	Expected Year-End Variance A−(B+C)
	$	$	$	$
Revenue				
• Government of Canada	130,000	32,500	97,500	–
• Membership	15,000	12,510	2,490	–
• Fund raising	10,000	–	10,000	–
• Interest	1,150	226	1,150	(226)
Total – Revenue	156,150	45,236	111,140	(226)
Expenditures				
• Salaries and benefits	88,966	20,417	66,724	1,825
• Honoraria	2,000	500	1,500	–
• Annual assembly	7,500	725	6,775	–
• Travel	5,400	1,628	3,772	–
• Office costs	14,246	1,924	12,322	–
• Rent	24,000	6,000	18,000	–
• Advertising/promotion	1,500	676	824	–
• Printing	800	–	800	–
• Building & maintenance	7,250	1,755	5,495	–
• Professional services	2,250	470	1,780	–
• Miscellaneous	2,000	132	1,868	–
Total – Expenditures	155,912	34,227	119,860	1,825
Surplus/(Deficit)	238	11,009	(8,720)	2,051

Note The program Administration and Services to the Community is expected to realize a surplus of $2,051 for the current year. This surplus is calculated as follows:

Extra interest revenue earned	$ 226
Salary saving due to delay in staffing	1,825
	$2,051

Appendix F

Financial Situation
For the period April 1st to June 30, 198XY
Program: Administration and Services to the Community

	1st Quarter Budget A	Actual B	Variance A-B
	$	$	$
Revenue			
• Government of Canada – Dept A	32,500	32,500	–
• Membership	15,000	12,510	2,490[1]
• Fund raising	–	–	–
• Interest	–	226	(226)
Total – Revenue	47,500	45,236	2,264
Expenditures			
• Salaries and benefits	22,242	20,417	1,825[2]
• Honoraria	500	500	–
• Annual assembly	–	725	(725)[3]
• Travel	775	1,628	(853)[4]
• Office costs	2,800	1,924	876
• Rent	6,000	6,000	–
• Advertising/Promotion	600	676	(76)
• Printing	–	–	–
• Building and Maintenance	1,755	1,755	–
• Professional Services	–	470	(470)[5]
• Miscellaneous	320	132	188
Total – Expenditures	34,992	34,227	765
Surplus/(Deficit)	12,508	11,009	1,499

Note 1 To date 834 memberships were issued compared to a forecast of 1,000. Increased activity is forecasted in July at the time of the annual assembly. Special effort will be made then to reach our goal of 1,000 members for this year.

Note 2 The Secretary's position was filled on June 1st which represents a saving of $1,825.

Note 3 The contract with Best Hotel Ltd. calls for a 25% advance payment for the annual assembly facilities (banquet $2,500 and conference hall $400).

Note 4 Travel by the executive has been at a higher level than anticipated because one trip was made to Ottawa regarding this year's funding. Such a trip was not anticipated.

Note 5 Legal costs incurred to finalize the association's incorporation.

Appendix G

Program: _____

Variance Report

Statement of Budgeted Revenue and Expenses Versus Actual

For the month of: _____

and the year to date

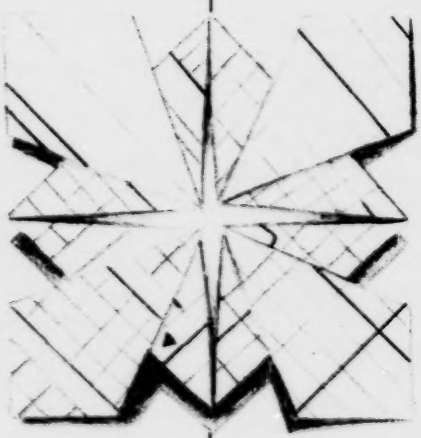
Description	Current Period			Year to Date		
	A Budget	B Actual	A-B Variance	A Budget	B Actual	A-B Variance
Revenue	$	$	$	$	$	$
Federal government						
• Department A						
• Department B						
Provincial government						
Municipality						
Membership						
Fund raising						
Interest income						
Total						
Expenditures						
Salaries:						
– executive						
– staff						
Employees benefits						
Honoraria						
Travel						
– executive						
– staff						
Annual Assembly						

Office costs
– telephone/telex
– photocopy
– office supplies
– utilities
– postage
– bank charges
– rent
– advertising/promotion
– publishing
– printing
– equipment rental
Building & maintenance
– cleaning
– insurance
Capital acquisitions
Professional fees
– legal
– audit
Miscellaneous
Total
Surplus (Deficit)

By	
Date	

2

The basis for accounting is the recording of transactions. The recording of transactions is more commonly referred to as bookkeeping. The word bookkeeping means exactly as it reads – *the keeping of books*. It is of the utmost importance to ensure that the bookkeeping system in place is timely and accurate because financial statements are prepared from the information maintained in these books. The financial statements are the end product; they provide the user of these statements with the actual state of the organization's financial position as of a specified date. Figure 2-1 depicts the flow of accounting data from the recording of transactions to the preparation of the financial statements.



The topics discussed in detail in this chapter are:

- classification of accounts
- journals and ledgers
- recording of transactions
- accounting records
- payroll

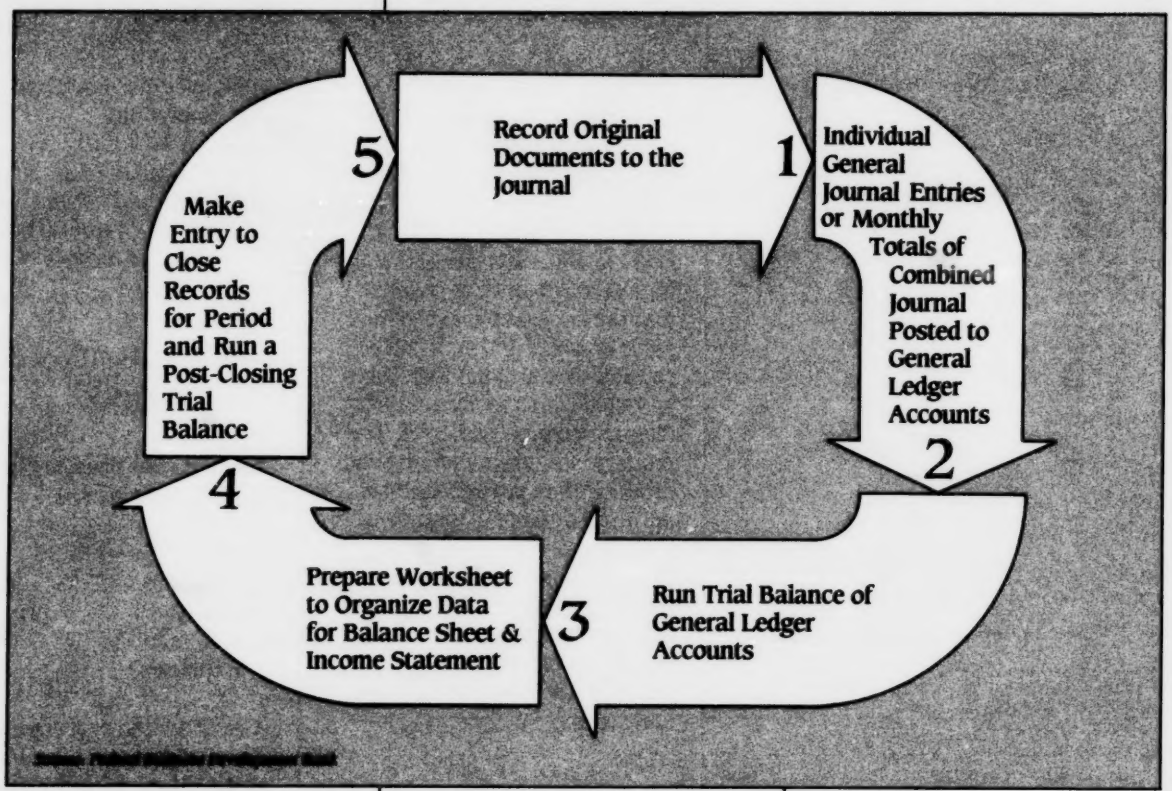
1. Classification of Accounts

Accounts are classified in one of the following groups:

- Assets
- Liabilities
- Equity
- Revenue
- Expenses

Assets are the properties or economic resources owned by the entity. These include cash, accounts receivable, notes receivable, advances, inventory, furniture, equipment, etc. Assets are classified as current, long-term or fixed. Current assets are those that are readily transformed into cash such as accounts receivable and inventory; long-term assets could be such items as real estate investments or bonds, while fixed assets are those such as buildings, automobiles, furniture and fixtures.

Figure 2-1


Record Original Documents to the Journal
1
Individual General Journal Entries or Monthly Totals of Combined Journal Posted to General Ledger Accounts
2
Run Trial Balance of General Ledger Accounts
3
Prepare Worksheet to Organize Data for Balance Sheet & Income Statement
4
Make Entry to Close Records for Period and Run a Post-Closing Trial Balance
5

Liabilities are the debts owed by an entity. These include accounts payable (monies owed to suppliers) notes payable, mortgages payable, bank loans, etc. These can be either current or long term. Current liabilities are items such as accounts payable which will be retired in the near future, long-term liabilities are those items which will be retained over a relatively long period of time such as a mortgage.

Equity is the difference between the total assets and total liabilities. The equity position can reflect either a surplus, that is, assets exceed liabilities or a deficit, that is liabilities exceed assets.

Revenue is money received or yet to be received by the organization. There are two methods of recording revenue, either the cash basis or the accrual basis (see section 3 of this chapter for further explanation). Examples of revenues are grants or contributions received from the government, membership fees, sales, donations, etc.

Expenses are the costs incurred in operating the organization. These costs can be recorded, by either the cash method or the accrual method. Expenses would include: supplies, wages, telephone, etc.

1.1 Coding of transactions

The purpose of coding transactions is to make it consistently easier to retrieve and summarize accounting data into meaningful and relevant financial statements and reports. The coding system, once established, becomes an integral part of the accounting system. It must be documented and revised periodically, at least once a year, to ensure its usefulness. The coding system must also be readily available to all accounting staff in a hard cover binder where amendments can be easily inserted. Both letters and numbers can be used in a coding system. In the following discussion, only numbers are used.

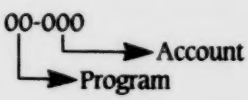
The first step is to define the coding to enable an organization, if it wishes, to retrieve financial data per activity or program. It is also *imperative* that the programs be clearly defined to ensure no overlap of activities. For example:

Program/Activity	Code
Administration	01
Co-ordination	02
Research	03

The second step is to code all accounts according to their classification by assigning them a number. It has to be noted that, within each classification of accounts described below, sufficient room was left to insert new accounts as the organization may require in the future.

	Account Code	
Classification	**From**	**To**
Assets	001	199
Liabilities	200	299
Equity	300	399
Revenue	400	699
Expenses	700	999

Hence, the full coding, for any transaction, for a given organization, could have five digits as follows:



Appendix A illustrates the full coding of ABC Association.

Example
If one refers to Appendix A of this chapter, and wishes to code the following expenditure: travel expenditure of John Smith, the president of the association, for an amount of $500. The coding is 01-723. However, if the president travels for discussion under the Research Program, the expenditure would be coded 03-723.

2. Journals and Ledgers

Many different types of books are maintained by the organizations. The books in use will be dependent upon the size or complexity of the organization.

The books most commonly used are:

- Cash Receipts/Disbursements Journal
- Payroll Journal
- General Journal
- General Ledger

The basic terminology used when discussing journals includes the following:

Source Documents are used to begin the recording of transactions in an accounting system. They provide proof of the legitimacy of a transaction; thus it is necessary that they be kept and filed in order, e.g. purchase invoices, expense vouchers, cancelled cheques, deposit slips, bank statements, petty cash vouchers, etc.

Journals are books where the first recording of a transaction is made from a source document. Journals are therefore called books of original entry. Examples of journals are: Cash Receipts Journal, Cash Disbursements Journal, Payroll Journal, General Journal, etc.

2.1 Cash Receipts/ Disbursements Journal

This book records all revenue as received and all cheques written. Transactions should be recorded in the journal on a daily basis as revenue is received or expenses are incurred. The necessary information to be recorded relating to the various items is as follows:

- Revenue: date, source, code, and amount
- Expense: date, payee, code, cheque number and amount

Receipts and disbursements can be integrated in the same journal or entered into separate journals.

2.1.1 *Cash Receipts Journal*

All money received by the organization is entered in the Cash Receipts Journal. It lists the receipts on the date received for each source of funds and, at the end of the month, it is totalled (see Appendix B of this chapter).

At the beginning of each period (or month), the heading of the Cash Receipts Journal is prepared. For receipts, the heading could read simply *Bank* with two columns one called DEBIT (Dr) and the other CREDIT (Cr). When cash is received, the date, the name of the organization or individual, the appropriate coding and amount are recorded under Bank – Dr.

Once all incoming funds have been entered in the journal for the period, it is necessary to:

- add the column
- allocate the receipts among the appropriate programs
- post to General Ledger.

When cash receipts are applicable to more than one program, it is recommended that the allocation be explained at the bottom of the page since this type of receipt is not frequent.

2.1.2 *Disbursements Journal*

All money paid out (this should be done *only* by cheque) must be entered in the Disbursements Journal.

At the beginning of each period (or month), the heading, of the Cash Disbursement Journal is prepared. As the accounts payable or invoices are paid, the date, the name of the payee, the coding, the cheque number and the amount are entered under the column Bank – Cr and the same amount is reported under the proper expenditure column (see Appendix C of this chapter).

At the end of the month, the columns must be totalled and the amount allocated to the appropriate programs or projects. It is advisable to annotate cheques when paying expenditures, indicating the expenditure item and the program for future reference.

2.2 Payroll Journal

The Payroll Journal is used to record all personnel costs related to wages. It serves to calculate the employees' gross wages, the related deductions, the employer's share of benefits (such as contributions to Canada Pension Plan) and the employees net pay (see Appendix D of this chapter).

The information generally recorded is as follows:

- Social Insurance Number
- Gross Salary
- Deductions:
  - Canada Pension Plan (CPP)
  - Unemployment Insurance (UI)
  - Federal Income Tax
  - Health Insurance Plan (in some provinces)
  - Other (Medical, Canada Savings Bonds, etc.)
- Deductions for Quebec residents only:
  - Quebec Pension Plan (QPP)
  - Quebec Income Tax
  - Health Insurance Plan
- Net Pay

2.2.1 *Calculation of pay*

At every pay period, the organization must calculate its employees' pay (see Appendix E of this chapter). The calculation steps are:

- determination of the gross salary
- calculation of deductions at the source
- calculation of the employees' net pay.

Each month, it is necessary to calculate the amounts to be remitted to the Receiver General for Canada and to the Quebec Government.

2.2.2 *Gross salary*

The gross salary is determined on the basis of the record of employment. If the employees are paid by the hours worked, the gross salary of an employee is the product of the number of hours worked times the employee's hourly pay rate.

Only vacation pay that has been issued is to be recorded. When vacation pay is issued, the amount should be added to the gross wages. Minimum vacation pay is calculated as per provincial legislation and is paid:

- when the employee leaves voluntarily, or
- when the employment is terminated, or
- when the vacation is taken.

2.2.3 *Deductions*

To calculate deductions at the source for the Canada Pension Plan, income tax and Unemployment Insurance, the federal government and the Quebec government have published various guides. These are:

- Tables for calculating unemployment insurance premiums
- Statement of income tax at source – Revenue Canada – Taxation
- For Quebec residents only: Employer's Guide and Tax Deduction Tables for contributions to the Quebec Pension Plan, the Guide for Deductions at Source for Quebec income tax, and the employer's contribution to the Health Insurance Plan.

These tables cover pay periods in normal use by employers and instruct users on how to calculate deductions properly at source. These guides are available at the District Taxation Office (federal and provincial for Quebec residents only).

Net pay or take home pay (the amount of the cheque payable to the employee) is determined by subtracting all deductions from total gross wages.

2.2.4 *Remittance of deductions*

Deductions at source, as well as an expense for the employer called the *employer's share*, must be remitted on a monthly basis, at the latest by the 15th of the month following the month to which the payment relates. For example, the employer's and the employee's shares, as well as the income tax deducted for the month of June, must be remitted to the departments concerned by July 15 at the latest.

The month shown on the employee's paycheque is considered to be the month of remuneration for purposes of remitting the deductions to the government no matter how many days were worked and paid in that month.

Date of Cheque	Month of Remuneration	Due date for Remittances
June 15, 1981	June	July 15, 1981
September 2, 1981	September	October 15, 1981
October 31, 1981	October	November 15, 1981

The payments to Revenue Canada – Taxation for all provinces, except Quebec, consist of:

- UI deductions (employees' and employer's share)
- CPP deductions (employees' and employer's share)
- federal income tax (total deduction).

In Quebec, the payments to Revenue Canada – Taxation consist of:

- UI deductions (employees' and employer's share),
- federal income tax.

For Quebec residents, the Quebec Pension Plan, Health Insurance Plan and the provincial income tax are remitted directly to the provincial government.

2.3 General Journal

The General Journal documents all entries required at the end of each month to adjust necessary accounts and provides a detailed explanation of each entry (see Appendix F of this chapter).

The General Journal serves as the source document for all items which are not recorded in the Cash Receipts, Cash Disbursements or Payroll journals. In some respects it is a catchall and will include such things as correction of errors, adjusting entries and accruals at the year-end.

Appendix F illustrates the July 31st entry which was made to correct the posting of a misclassified expense after the July books had been closed. Unless an adjustment was made, the two accounts involved would not have reflected the proper amounts at year-end.

2.4 Subsidiary Ledgers

Subsidiary ledgers provide details of such items as accounts receivable and accounts payable (see Figure 2-2 of this chapter).

Figure 2-2
Examples of Accounts Receivable Subsidiary Ledger

CAR - AIR TRAVEL

DATE	DESCRIPTION	FOLIO	DEBITS	✓	CREDITS	DR or CR	BALANCE
Apr 30	Travel to Ottawa				1350 00	CR	1350 00
May 10	Travel to Toronto				2100 00	CR	3450 00
June 5	Payment on Account		3000 00			CR	450 00

JOHN SMITH

DATE	DESCRIPTION	FOLIO	DEBITS	✓	CREDITS	DR or CR	BALANCE
MAY 4	Wage Advance		500 00			DR	500 00
June 10	Advance Repaid				500 00		-0-

Figure 2-3
Examples of General Ledger Accounts

CASH IN BANK

DATE	DESCRIPTION	FOLIO	DEBITS	✓	CREDITS	DR or CR	BALANCE
Aug 31	Brought Forward					DR	7[illegible]
Sept 30	Cash Receipts (1)		[illegible]			DR	[illegible]
Sept 30	Cash Receipts (2)		[illegible]			DR	[illegible]
Sept 30	Cash Receipts (3)		[illegible]			DR	[illegible]
Sept 30	Cash Disbursements				[illegible]	DR	[illegible]

UTILITIES CO. - ADMINISTRATION

DATE	DESCRIPTION	FOLIO	DEBITS	✓	CREDITS	DR or CR	BALANCE
Aug 31	Brought Forward					DR	[illegible]
Sept 30	Cash Disbursements		[illegible]			DR	[illegible]

2.5 General Ledger

This ledger is a control source for all accounts. It lists all assets, liabilities, equity, revenue and expense items. All monthly totals from the various journals will be posted in this ledger as well as the year-end adjusting entries (see Figure 2-3 of this chapter).

Each page of the General Ledger corresponds to one account and one program. The recording in the General Ledger is as follows:

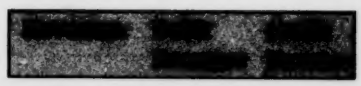
Step 1	Add and balance each column of the Cash Receipts and Disbursements Journals
Step 2	Allocate the amounts of receipts and disbursements by program, where applicable, using the coded transaction as a basis
Step 3	Identify the amounts to the General Ledger number
Step 4	Report the amounts to the General Ledger in the appropriate column (debit or credit)
Step 5	Insert the date, folio and the balance
Step 6	Refer to the journals to ensure that all the amounts have been reported by marking a (√) beside each amount
Step 7	Perform a reconciliation to ensure that all debits equal all credits.

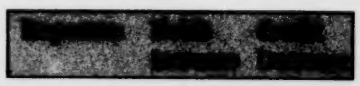
The inscription to the General Ledger is important and must be accurate since it will form the basis of the preparation of the financial statements.

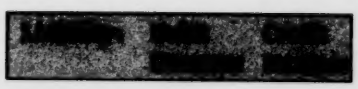
3. Recording of Transactions

3.1 Posting

To record accounting transactions, it is necessary to either debit or credit an account. The left side of the account is called the *debit* while the right side is the *credit*. The manner in which debits and credits affect revenue, expenses, assets, liabilities and equity is as follows:







Thus, before any postings are made to the accounts, it must first be determined what type of account is involved.

Figure 2-4
Posting to General and Subsidiary Ledgers

General Journal — **Page 2**

			Account	Debit	Credit
Oct.	12	Supplies	741	125	
		Heating	790	78	
		Telephone	243	57	
		Accounts payable			260
		to record invoices			
		received			

General Ledger

Accounts Payable — Acc. no. 899

		Debit	Credit
Oct. 12	2		260

Accounts Payable Ledger

Supplies Ltd.

Date	Explanation	F	Debit	Credit	Balance
Oct. 12		2		125	125

Heating Co.

Date	Explanation	F	Debit	Credit	Balance
Oct. 12		2		78	78

Telephone

Date	Explanation	F	Debit	Credit	Balance
Oct. 12		2		57	57

Proof: Summary of Accounts Payable balances

Supplies Ltd.	$125
Heating Co.	78
Telephone	57
	$260

3.1.1 *Posting to the General Ledger and Subsidiary Ledgers – an Example*

To illustrate the method of posting from the general journal to the general and subsidiary ledgers, the following transactions are considered.

On October 12, Association ABC received the following invoices:

- Supplies Ltd. $125.00
- Heating Co. $ 78.00
- Telephone $ 57.00

Figure 2-4 shows the information recorded in the General Journal and posted to the General Ledger and the Accounts Payable Ledger. Figure 2-4 shows the total posting of $260 credit to the Accounts Payable account in the General Ledger and detailed posting to the subsidiary ledger accounts. Each supplier is credited for the amount shown in the explanation of the general journal entry; the balance is extended to the Balance column; the journal page number is entered in the folio (F) column; and the date is entered. After each posting has been completed, a check mark (√) is entered to the left of each amount in the Explanation column of the General Journal to indicate that the amount has been posted to the proper subsidiary ledger account. A check mark is used rather than a page number because subsidiary accounts in the illustration are not numbered but are kept in alphabetical order.

It has to be noted that the amounts entered in the Accounts Payable Ledger will not go in the trial balance, but the total of the unpaid balances at the end of a period will be compared to the single balance of the accounts payable controlling account of the General Ledger to ensure accuracy.

The balance form of the Accounts Payable Ledger is used because the balances have to be referred to often either to verify if a creditor has been paid or to quickly determine the total unpaid balance of a particular account.

3.2 Cash vs Accrual Accounting

The recording of transactions can either be by the cash or accrual method. These methods are explained below.

The CASH method records revenue when *received* and expenses are recorded when *paid*. Under the ACCRUAL method, revenue is recorded when *earned* and expenses are recorded when *incurred*. The following example explains the difference between these two methods.

Example 1 Revenue Earned But Not Yet Received

Accrual method

This revenue will be recorded immediately and an account receivable set up, then when the money is received the account receivable will be credited.

	Debit	Credit
Accounts receivable	$45,000	
Revenue		$45,000

When the revenue is received, then the account receivable is credited for the month of April.

	Debit	Credit
Bank	$45,000	
Account receivable		$45,000

Cash method

No entry will be made until the cash is actually received. When cash is received, the entry will be the following:

	Debit	Credit
Bank	$45,000	
Revenue		$45,000

Example 2 Expense – The Invoice Has Been Received But Payment Has Not Yet Been Made

Accrual method

This expense will be recorded immediately and an account payable set up.

	Debit	Credit
Expense account	$5,000	
Account payable		$5,000

When the invoice is paid, then the account payable is debited.

	Debit	Credit
Account payable	$5,000	
Bank		$5,000

Cash method

No entry will be made until the expense has been paid. When the invoice is paid, the entry is the following:

	Debit	Credit
Expense account	$5,000	
Bank		$5,000

4. Accounting Records

The accounting records must be maintained for both receipts and disbursements, i.e. revenue and expenses as well as assets, liabilities and owners' equity. It should be stated that the safekeeping of the accounting records is of the utmost importance as these documents detail in quantitative terms the activities of the organization. The accounting entries should be made daily if the volume of transactions is sufficient (weekly or monthly if the volume of transactions is fairly small) and in chronological order. It is necessary to abide by this process so as to avoid loss of documents or omissions.

All documents should be retained and filed by supplier for expenses and by source for revenue. The unpaid invoices should be kept separately and filed according to due date. When discounts are available, the related invoices should be paid within the specified time frame.

4.1 Receipts

Revenue received should be deposited daily and recorded immediately in the receipts journal. No expenses should be paid directly from any cash received. *All* monies should first be deposited and then a cheque written for any expenses to be paid.

4.2 Disbursements

All expenses should be paid by cheque. The cancelled cheque serves as *proof* of payment.

4.3 Adjusting Entries

Adjusting entries are generally required at the end of each month and entered in the General Journal and carried to the General Ledger. These adjustments would include such items as an expense amount occurring during the month but for some reason posting had been forgotten; thus it is now necessary to make an adjustment to include the amount. Another reason for making an adjusting entry is that it might be discovered, while going over the monthly postings, that a posting had been made to the wrong account or an incorrect amount had been posted. It is necessary to adjust these accounts so that the proper account reflects the proper amount. Do not erase or use corrective liquid to make a correction; instead, make a separate entry.

Conclusion

Bookkeeping establishes the basis for the preparation of financial statements. Properly done, it will enable the organization to provide complete, timely and accurate financial information to management and third parties.

Appendix A
ABC Association – Coding System

1 – Program

The programs and program codes of the association are the following:

Program	Program Code
Administration and Services to the Community	01
Co-ordination	02
Research	03

Administration and Services to the Community
This program includes:

- the executive officers: President, Executive Director, Secretary Treasurer
- the association's general administration: finance branch, administration branch and the personnel branch.

Co-ordination
This program includes the office of the Director – Community Program Co-ordination

Research
This program includes the office of the Director – Community Development.

II – Chart of Accounts

II.1 Assets	Coding		
	Administration and Services to the Community	**Co-ordination**	**Research**
1. Bank – current account (note 1)	01-001	n/a	n/a
2. Bank – savings account	01-002	n/a	n/a
3. Petty cash	01-003	02-003	03-003
4. Securities	01-004	n/a	n/a
5. Bonds	01-005	n/a	n/a
6. Furniture	01-006	02-006	03-006
7. Office equipment	01-007	02-007	03-007
8. Building	01-008	n/a	n/a
9. Land	01-009	n/a	n/a
10. Accounts receivable	01-010	02-010	03-010
–	01-xxx	02-xxx	03-xxx
n	01-199	02-199	03-199
II.2 Liabilities			
1. Mortgage payable	01-200	n/a	n/a
2. Utilities payable	01-201	02-201	03-201
–	01-xxx	02-xxx	03-xxx
n	01-299	02-299	03-299
II.3 Equity			
1. Surplus	01-300	02-300	03-300
–	01-xxx	02-xxx	03-xxx
n	01-399	02-399	03-399

Note 1 It is advisable to maintain only one (1) bank account for all programs to ensure greater efficient use of cash and to facilitate monthly bank reconciliation.

II.4 Revenues	Coding		
	Administration and Services to the Community	Co-ordination	Research
1. Secretary of State – Contribution	01-400	02-400	03-400
2. Secretary of State – Grant	01-401	02-401	03-401
3. Province – Ministry of Education	01-410	02-410	03-410
4. Investment	01-420	02-420	03-420
5. Membership	01-425	02-425	03-425
6. Sales	01-430	02-430	03-430
7. Gifts and donations	01-435	02-435	03-435
8. Municipality – City	01-440	02-440	03-440
–	01-xxx	02-xxx	03-xxx
n Miscellaneous	01-699	02-699	03-699
II.5 Expenses			
Salaries and benefits			
1. President	01-700	02-700	03-700
2. Executive Director	01-701	02-701	03-701
3. Secretary-Treasurer	01-702	02-702	03-702
4. Directors	01-703	02-703	03-703
5. Support staff – full-time	01-704	02-704	03-704
6. Support staff – part-time	01-705	02-705	03-705
7. Employees benefits	01-706	02-706	03-706
8. Honoraria	01-707	02-707	03-707
–	01-xxx	02-xxx	03-xxx
n	01-719	02-719	03-719
Meetings and travel			
1. Board meetings	01-720	n/a	n/a
2. Annual assembly	01-721	n/a	n/a
3. Directors' meetings	01-722	02-722	03-722
4. Travel	01-723	02-723	03-723
–	01-xxx	02-xxx	03-xxx
n	01-739	02-739	03-739

Appendix A (cont'd)

Office expenses			
1. Office equipment rental	01-740	02-740	03-740
2. Office supplies	01-741	02-741	03-741
3. Postage	01-742	02-742	03-742
4. Telephone, telex, telegram	01-743	02-743	03-743
5. Furniture	01-744	02-744	03-744
6. Office equipment	01-745	02-745	03-745
7. Photocopying and printing	01-746	02-746	03-746
8. Publicity and promotion	01-747	02-747	03-747
–	01-xxx	02-xxx	03-xxx
n	01-759	02-759	03-759
Overhead (Note 1)			
1. Rent	01-780	n/a	n/a
2. Maintenance	01-781	n/a	n/a
3. Taxes	01-782	n/a	n/a
4. Utilities	01-783	n/a	n/a
5. Bank charges	01-784	n/a	n/a
6. Insurance	01-785	n/a	n/a
–	01-xxx	02-xxx	03-xxx
n Miscellaneous	01-999	02-999	03-999

Note 1 In most organizations overhead accounts are all controlled centrally. For larger organizations wishing to charge program with portion of overhead costs, codes would have to be assigned to each program to ensure that overhead costs are properly reported.

Appendix B
Cash Receipts Journal

2

07-512

CASH RECEIPTS JOURNAL

SEPTEMBER

	DATE	DETAIL	PROGRAM	1 BANK	2 480 CONTRIBUTION	3 401 GRANT	4 470 PROVINCE	5 425 MEMBERSHIP	6 430 SALES	7 490 MUNICIPALITY	8 499 MISC.
1	Sept 1	Fed. Gov't - Dept. A	01	20000.00	20000.00						
2	8	Province	02	10000.00			10000.00				
3	25	Fed. Gov't - Dept. C	03	7500.00		7500.00					
4	30	Bake Sale	01	121.00					121.00		
5											
6		TOTAL		37621.00	20000.00	7500.00	10000.00		121.00		
7											
8											
9											
10											

Appendix C
September Calendar

Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
	1	2	3	4	5	6
7	8	9	10	11	12	13
14	15	16	17	18	19	20
21	22	23	24	25	26	27
28	29	30				

Appendix C (cont'd)
Cash Disbursement Journal

	DATE	DETAIL OF CHEQUES	PROGRAM	CHEQUE NO.	BANK DEBIT	BANK CREDIT	PAYROLL	PAYROLL DEDUCTIONS	723 TRAVEL
1									
2	Sept. 1	ABC Real Estate	01	145		200000			
3	1	Diane Smith	01	146		73842			738
4	2	Business Supplies Ltd.	01	147		35160			
5	2	Telecommunications	01	148		13200			
6	4	ABC Broker	01	149		25000			
7	5	AVO Travel	02	150		128400			1284
8	5	Xerox Canada	02	151		78250			
9	5	Clear Printing	03	152		35000			
10	5	Clear Company	01	153		58334			
11	10	Provincial Hydro Co.	01	154		17046			
12	11	Dynes Fuel Co.	01	155		8310			
13	12	Wages - Payroll Journal	01	156 to 159		240354	240354		
14			02	160 to 162		139576	139576		
15			03	163		46202	46202		
16	12	Receiver General - Ded. Reg.		164		275760			
17			01					168859	
18			02					79691	
19			03					27210	
20	13	Bank Charges - Reg.	01	—		2761			
21	15	Telephone Co.	01	165		10412			
22	15	Jack Smith - void	—	166					
23	16	P. Sear - travel refund	01	—	16000				(160
24	19	M. Latour - petty cash		167		1850			
25			01						
26			02						
27			03						
28	22	Void		168					
29	26	Wages - Payroll Journal	01	169 to 172		240354	240354		
30			02	173 to 175		139576	139576		
31			03	176		46202	46202		
32	30	Hardware Co.	01	177		4565			
33									
34		TOTAL			16000	1820154	852264	275760	1862
35									
36		TOTAL - PROGRAM 01			16000	1099122	480708	168859	578
37		02			—	565943	279152	79691	1284
38		03			—	155089	92404	27210	—
39		TOTAL - ALL PROGRAMS			16000	1820154	852264	275760	1862
40									
41									
42									
43									
44									
45									

CASH DISBURSEMENT JOURNAL
SEPTEMBER

741 OFFICE SUPPLIES	743 TELEPHONE TELEX	746 PHOTOCOPY PRINTING	780 RENT	781 MAINTENANCE	783 UTILITIES	784 BANK CHARGES	785 INSURANCE	799 MISC.	
			200000						
35160	13200								
							250000		
		78250							
		35000		58334					
					17046				
					8310				
						2761			
	10412								
925									
	450							475	Messenger Service
								4565	New locks
36085	24062	113250	200000	58334	25356	2761	250000	5040	
36085	23612	–	200000	51334	25356	2761	250000	4565	
–	450	78250	–	–	–	–	–	–	
–	–	35000	–	–	–	–	–	475	
36085	24062	113250	200000	51334	25356	2761	25000	5040	

Appendix D
Payroll Journal – 01 September

PAYROLL JOURNAL - PROGRAM 01
SEPTEMBER

	PERIOD	EMPLOYEE	TOTAL EARNINGS	U.I. INSURABLE EARNINGS	U.I. DEDUCTION	U.I. CUMULATIVE	C.P.P. DEDUCTION	INCOME TAX TAXABLE EARNINGS	INCOME TAX FEDERAL	INCOME TAX PROVINCIAL (QUE ONLY)	TOTAL DEDUCTION	AMOUNT PAID	CHEQUE NO.
1	1-14	Jane Smith	1066 00	20620 00	1771	XX	1771	27566 00	253 25	-	288 67	777 33	156
2		John Doe	901 00	20020.00	1771	XX	1483	23426 00	186 90	-	213 44	687.56	157
3		Dean Until	766 46	19928 00	1763	XX	1245	19928 00	124 65	-	154 73	611.73	158
4		Marie Latour	383 23	9964 00	881	XX	555	9964 00	35 95	-	91 50	332 92	159
5													
6		TOTAL - PERIOD	3110 69	N/A	6186	N/A	5054	N/A	594 75	-	747 34	2409 54	
7													
8													
9													
10	15-28	Jane Smith	1066 00	20620 00	1771	XX	1771	27566 00	253 25	-	288 67	777 33	169
11		John Doe	901 00	20020 00	1771	XX	1483	23426 00	186 90	-	213 44	687 56	170
12		Dean Until	766 46	19928 00	1763	XX	1245	19928 00	124 65	-	154 73	611 73	171
13		Marie Latour	383 23	9964 00	881	XX	555	9964 00	35 95	-	91 50	332 92	172
14													
15		TOTAL - PERIOD	3110 69	N/A	6186	N/A	5054	N/A	594 75	-	747 34	2409 54	
16													
17		TOTAL - SEPTEMBER	6221 38	N/A	12372	N/A	10108	N/A	1189 50	-	1494 68	4819 08	
18													
19													
20													
21	REMITTABLE TO RECEIVER GENERAL												
22		EMPLOYEE'S SHARE	N/A	N/A	2372	N/A	10108	N/A	1189 50	-	14 1480		
23		EMPLOYER'S SHARE	N/A	N/A	17321	N/A	10108	N/A	N/A	-	27429		
24		TOTAL	N/A	N/A	29693	N/A	20216	N/A	1189 50	-	1688 59		
25													
26													

Appendix D (cont'd)
Payroll Journal – 02 September

PAYROLL JOURNAL - PROGRAM 02
SEPTEMBER

	PERIOD	EMPLOYEE	TOTAL EARNINGS	U.I. INSURABLE EARNINGS	U.I. DEDUCTION	C.P.P. CUMULATIVE	C.P.P. DEDUCTION	INCOME TAX TAXABLE EARNINGS	INCOME TAX FEDERAL	INCOME TAX PROVINCIAL (QUÉ. ONLY)	TOTAL DEDUCTION	AMOUNT PAID	CHEQUE NO.
1	1-14	George Brown	570.77	14840.00	13.13	XX	8.92	14840.00	90.55	-	112.60	458.17	160
2		Pierre Larue	570.77	14840.00	13.13	XX	8.92	14840.00	73.15	-	95.20	475.57	161
3		Hélène White	570.77	14840.00	13.13	XX	8.92	14840.00	86.70	-	108.75	462.02	162
4													
5		TOTAL - PERIOD	1712.31	N/A	39.39	N/A	26.76	N/A	250.40	-	316.55	1395.76	
6													
7													
8													
9													
10													
11	15-28	George Brown	570.77	14840.00	13.13	XX	8.92	14840.00	90.55	-	112.60	458.17	173
12		Pierre Larue	570.77	14840.00	13.13	XX	8.92	14840.00	73.15	-	95.20	475.57	174
13		Hélène White	570.77	14840.00	13.13	XX	8.92	14840.00	86.70	-	108.75	462.02	175
14													
15		TOTAL - PERIOD	1712.31	N/A	39.39	N/A	26.76	N/A	250.40	-	316.55	1395.76	
16													
17		TOTAL SEPTEMBER	3424.62	N/A	78.78	N/A	53.52	N/A	500.80	-	633.10	2791.52	
18													
19													
20	REMITTABLE TO RECEIVER GENERAL												
21		EMPLOYEES SHARE	N/A	N/A	78.78	N/A	53.52	N/A	500.80	-	633.10		
22		EMPLOYERS SHARE	N/A	N/A	110.29	N/A	53.52	N/A	N/A	-	163.81		
23		TOTAL	N/A	N/A	189.07	N/A	107.04	N/A	500.80	-	796.91		
24													
25													
26													

Appendix D (cont'd)
Payroll Journal – 03 September

PAYROLL JOURNAL - PROGRAM 03
SEPTEMBER

	PERIOD	EMPLOYEE	TOTAL EARNINGS	U.I. INSURABLE EARNINGS	U.I. DEDUCTION	U.I. CUMULATIVE	C.P.P. DEDUCTION	INCOME TAX TAXABLE EARNINGS	INCOME TAX FEDERAL	INCOME TAX PROVINCIAL (QUE. ONLY)	TOTAL DEDUCTION	AMOUNT PAID	CHEQUE NO.
1	1-14	Peter Black	57077	1484000	1313	XX	892	1484000	8670	–	10875	46202	165
2													
3		TOTAL - PERIOD	57077	N/A	1313	N/A	892	1484000	8670	–	10875	46202	
4													
5													
6	15-28	Peter Black	57077	1484000	1313	XX	892	1484000	8670	–	10875	46202	176
7													
8		TOTAL - PERIOD	57077	N/A	1313	N/A	892	1484000	8670	–	10875	46202	
9													
10		TOTAL - SEPTEMBER	114154	N/A	2626	N/A	1784	N/A	17340	–	21750	92404	
11													
12	REMITTANCE TO RECEIVER GENERAL												
13		EMPLOYER'S SHARE	N/A	N/A	2626	N/A	1784	N/A	17340	–	21750		
14		EMPLOYEE'S SHARE	N/A	N/A	3676	N/A	1784	N/A	N/A	–	5460		
15		TOTAL	N/A	N/A	6302	N/A	3568	N/A	17340	–	27210		
16													
17													
18													
19													
20													
21													
22													
23													
24													

Appendix E

NO ASSURANCE SOCIALE – SOCIAL INS. NO.: 999 | 999 | 999

NOM – NAME: DOE / JOHN

ADRESSE – ADDRESS: 49 ARTHUR

VILLE – TOWN: SMITHVILLE

PROVINCE: PROV | CODE POSTAL CODE: A0A 0A0

TELEPHONE: 999-9999

EMPLOYEUR PRECEDENT – FORMER EMPLOYER: ABC CONSTRUCTION

OCCUPATION PRECEDENTE – FORMER OCCUPATION:

DATE DE NAISSANCE – DATE OF BIRTH: JOUR – DAY 26 | MOIS – MONTH 06 | ANNEE – YEAR 1938

ATTEINDRA 18 OU 70 ANS DURANT L'ANNEE. WILL REACH 18 OR 70 DURING YEAR.

MASCULIN MALE [X] FEMININ FEMALE [ ]

CELIBATAIRE SINGLE [ ] MARIE MARRIED [X]

DIVORCE DIVORCED [ ] VEUF(VE) WIDOWER [ ]

NOMBRE DE DEPENDANTS NUMBER OF DEPENDENTS: 4

EXEMPTIONS

FEDERAL:

PROVINCIAL:

GENRE DE TRAVAIL – TYPE OF WORK: CO/ORDINATEUR/CO-ORDINATOR

DATE DE L'EMPLOI – DATE OF EMPLOYMENT: 18/04/80

TAUX DE SALAIRE ET AUGMENTATIONS RATE OF WAGES AND INCREASES

REMUNERATIONS DE L'EMPLOYE – EMPLOYEE'S EARNINGS

SEMAINE FINISSANT WEEK ENDING	HEURES JOURNALIERES DAILY HOURS WORKED D S	L M	M T	M W	J T	V F	S S	HEURES – HOURS TEMPS REG. TIME	SUPP. OVERTIME 1½	SUPP. OVERTIME 2	SALAIRE TOTAL WAGES	AUTRES REMUNERATIONS OTHER EARNINGS	REMUN. TOTALE TOTAL EARNINGS
JANVIER – JANUARY 3								40			901.00		901.00
17								40			901.00		901.00
31								40			901.00		901.00
TOTAUX DU MOIS – MONTHLY TOTALS ▶								120			2703.00		2703.00
FEVRIER – FEBRUARY 14								40			901.00		901.00
28								40			901.00		901.00
TOTAUX DU MOIS – MONTHLY TOTALS ▶								80			1802.00		1802.00
MARS – MARCH 14								40			901.00		901.00
28								40			901.00		901.00
TOTAUX DU MOIS – MONTHLY TOTALS ▶								80			1802.00		1802.00
AVRIL – APRIL 11								40			901.00		901.00
25								40			901.00		901.00
TOTAUX DU MOIS – MONTHLY TOTALS ▶								80			1802.00		1802.00
MAI – MAY 9								40			901.00		901.00
23								40			901.00		901.00
TOTAUX DU MOIS – MONTHLY TOTALS ▶								80			1802.00		1802.00
JUIN – JUNE 6								40			901.00		901.00
20								40			901.00		901.00
TOTAUX DU MOIS – MONTHLY TOTALS ▶								80			1802.00		1802.00
JUILLET – JULY 4								40			901.00		901.00
18								40			901.00		901.00
TOTAUX DU MOIS – MONTHLY TOTALS ▶								80			1802.00		1802.00
AOUT – AUGUST 1								40			901.00		901.00
15								40			901.00		901.00
29								40			901.00		901.00
TOTAUX DU MOIS – MONTHLY TOTALS ▶								120			2703.00		2703.00
SEPT – SEPT 12								40			901.00		901.00
26								40			901.00		901.00

DEDUCTIONS DE L'EMPLOYE – EMPLOYEE'S DEDUCTIONS

RENTES GOVERNMENT PENSION PLAN CUMUL.	RENTES GOVERNMENT PENSION PLAN CONT.	ASS. CHOM. – U. I. GAINS ASSURABLES INSURABLE EARNINGS	ASS. CHOM. – U. I. DED.	FOND DE PENSION PLAN	GAINS IMPOSABLES TAXABLE EARNINGS	IMPOT INCOME TAX FED.	IMPOT INCOME TAX PROV.	ASS. MALADIE HEALTH INS.	ASS. GROUPE GROUP INS.	COTIS. SYND. UNION DUES	CONV. COLL. AGR.	AUTRES – OTHER DEDUCTIONS	DED. TOTALES TOTAL DED.	PAYE NETTE – NET PAY MONTANT PAYE AMOUNT PAID	INITIALES OU CHEQUE NO OR INITIALS
	14.83	2002.00	17.71		23426.00	180.90							213.44	687.56	
	14.83		17.71			180.90							213.44	687.56	
	14.83		17.71			180.90							213.44	687.56	
	44.49		53.13			542.70							640.32	2062.68	
	14.83		17.71			180.90							213.44	687.56	
	14.83		17.71			180.90							213.44	687.56	
	29.66		35.42			361.80							426.88	1375.12	
	14.83		17.71			180.90							213.44	687.56	
	14.83		17.71			180.90							213.44	687.56	
	29.66		35.42			361.80							426.88	1375.12	
	14.83		17.71			180.90							213.44	687.56	
	14.83		17.71			180.90							213.44	687.56	
	29.66		35.42			361.80							426.88	1375.12	
	14.83		17.71			180.90							213.44	687.56	
	14.83		17.71			180.90							213.44	687.56	
	29.66		35.42			361.80							426.88	1375.12	
	14.83		17.71			180.90							213.44	687.56	
	14.83		17.71			180.90							213.44	687.56	
	29.66		35.42			361.80							426.88	1375.12	
	14.83		17.71			180.90							213.44	687.56	
	14.83		17.71			180.90							213.44	687.56	
	29.66		35.42			361.80							426.88	1375.12	
	14.83		17.71			180.90							213.44	687.56	
	14.83		17.71			180.90							213.44	687.56	
	44.49		53.13			542.70							640.32	2062.68	
	14.83		17.71			180.90							213.44	687.56	
	14.83		17.71			180.90							213.44	687.56	

Appendix F

A.D.S. Association
General Journal

Date	J/E	Details	Account	Debit	Credit
July 31	14	Office Supplies Expense	01-741	$32.00	
		Printing and photocopying	02-746		$32.00
		To correct misclassified expense			

3

Given the limited availability of this critical asset, it becomes imperative that cash be effectively managed, from the time it is received to the time it is disbursed.

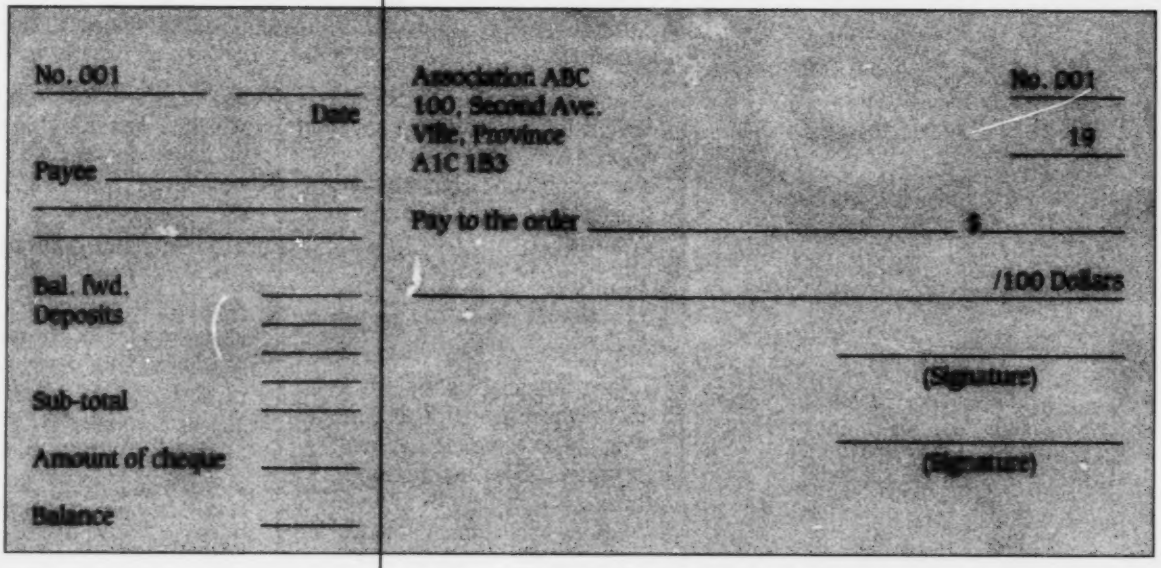
1. Bank Accounts

Today, financial institutions offer a wide variety of accounts. With proper cash management, an organization can minimize the amount of cash it carries in chequing accounts and maximize the amount carried in savings accounts or term deposits. Chapter 1 addressed the topic of financial planning and the importance of the cash flow forecast. These forecasts are a necessary tool in determining the amount of cash which can be invested in the interest bearing accounts versus the amount which is necessary to meet the organization's obligations in the near future.

1.1 Chequing accounts

A current chequing account is important for any organization, as it provides a monthly record of all receipts and disbursements, through the return of all cheques issued, and a bank statement. Many organizations make the mistake of opening too many accounts; not only does this make it difficult to determine where the organization as a whole stands but often requires that cash be transferred from one account to another to avoid overdraft charges. The number of chequing accounts should be kept to a minimum. When an account is opened, the account and the blank cheques should be properly identified with the legal name of the organization. It is essential to request pre-numbered cheques to control their issue, but if the chequebook has no numbering, the cheques and stubs must be numbered manually. When one account is to be used for several programs or projects, it is important that all receipts and all disbursements be recorded and adequately identified by program or project in the books and records.

Figure 3-1
The Cheque Book



STUB CHEQUE

A chequebook for a current account has a stub for each cheque (see Figure 3-1 of this chapter). It must be correctly filled out so as to provide the following information.

- cheque number
- date of issue
- payee
- amount
- a brief description of purpose
- the balance
- the coding.

If a mistake is made on a cheque, VOID should be written on the stub *and* the cheque, in order to maintain the numerical sequence of the cheques. All VOID cheques must be kept.

All cheques should be supported by a voucher. For payment of an invoice, a purchase authorization such as a purchase order is recommended. When paying an invoice, the person signing the cheque should note, on the original invoice only, the cheque number, amount and date. This will prevent the same invoice being paid twice and will be convenient for future reference.

1.1.2 *Signing cheques*

When opening a current account or a chequing account, the organization should appoint authorized signing officers. As a general rule, all cheques should be signed by two persons. It is generally preferable to appoint three persons as authorized signing officers if two signatures are required for each cheque. Thus, if one person is absent, two are still present to sign cheques.

The treasurer should be one of the authorized signing officers and he/she must sign *all* cheques, as he/she is responsible for all expenditures. Blank cheques should NEVER be signed in advance by an authorized signing officer. The signature of an authorized signing officer should never be replaced by a rubber stamp of the officer's signature.

1.2 Savings Accounts

By investing idle cash in interest bearing accounts such as savings accounts and term deposits, an efficient use of this resource will be achieved.

It is necessary to determine the maximum amount to be invested and the period of time that the cash will remain idle prior to choosing the type of investment account which will offer the greatest yield or return. The procedure for opening that type of account is the same as that used for chequing accounts.

2. Reconciliation

A monthly bank reconciliation is a useful means of verifying the accuracy of the organization's records. The exercise balances the bank statement with the receipts and disbursements records. Once the bank statement balance agrees with the bank balance in the records, there is an account of all incoming and outgoing funds for that given period.

Each bank account must be reconciled once a month when bank statements and cancelled cheques are received. Figure 3-2 provides an example of a Bank Reconciliation form.

2.1 Method

The following steps should be followed when reconciling:

Step 1	Arrange in numerical order the paid cheques returned from the bank.
Step 2	Compare all cancelled cheques and debit notes with the bank statement.
Step 3	Record bank service charges in the Disbursements journal and onto the reconciliation form.
Step 4	Compare all deposits in the Receipts journal.
Step 5	Enter all outstanding deposits in the appropriate space on the bank reconciliation form, add them to the balance of the bank statement, and calculate the sub-total.
Step 6	Compare the cancelled cheques listed in the bank statement with the Disbursements journal.
Step 7	Correct all mistakes made when cheques were recorded in the Disbursements journal.
Step 8	Enter all outstanding cheques in the appropriate space on the bank reconciliation form and subtract this amount from the previous sub-total.
Step 9	Compare the adjusted balance to the balance in the organization's books.

The bank should be notified as soon as possible of any mistakes on its part.

Figure 3-2
Bank Reconciliation

Reference:			**Account No:**
Balance per Bank Statement Dated:			**$**
Add Outstanding Deposits	**Date**	**Amount**	
	Total	**$**	**$**
Revised Balance			**$**
Less Outstanding Cheques	**Cheque No.**	**Amount**	
	Total	**$**	**$**
True Bank Balance As of			**$**
Balance As per General Ledger			**$**
Prepared by		**Date**	**Supervisor**

3. Petty Cash

It is not always possible to pay expenses by cheque. Some expenses, such as bus fares and postage stamps may have to be paid by cash. This should be done through a petty cash fund. However, a petty cash fund should be used only when absolutely necessary. The petty cash fund should be sufficient to last two or three weeks. To minimize the possibility of loss, it is recommended that the amount should not exceed $100.

3.1 Establishment of a Petty Cash Fund

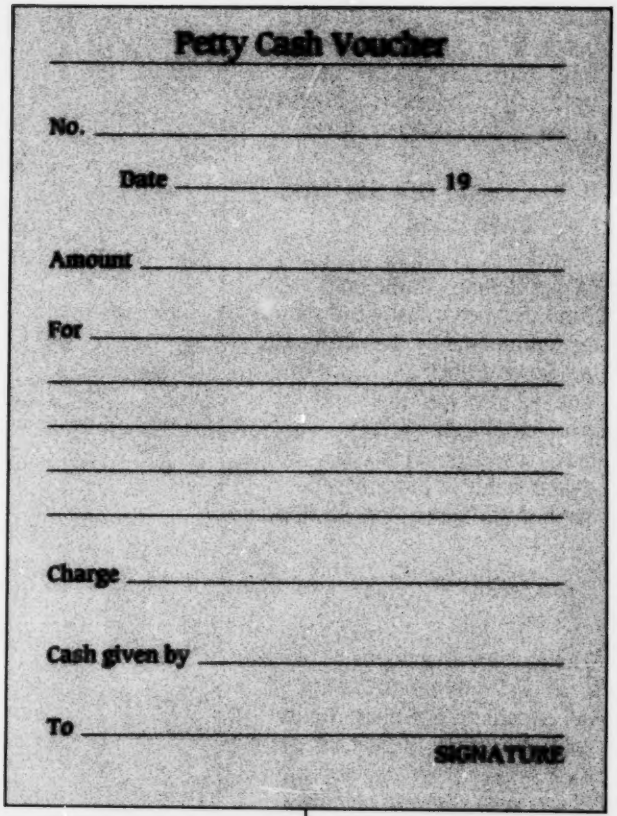
To create a petty cash fund, a cheque should be written for the amount required payable to *(name of person) in trust for petty cash*, and given to this person for cashing at the bank. The money should be kept in a safe place by either the project manager or the bookkeeper, either of whom would normally be responsible for the fund.

Whenever a payment is made from petty cash, care must be taken to ensure that either a receipt is obtained or a petty cash voucher is written (see Figure 3-3). The total of receipts, vouchers and the cash remaining in the fund must always equal the sum which was originally withdrawn for petty cash.

Example

If a $50.00 petty cash fund is established and over a few days the following items are paid: $9.25 for stationery, $4.50 for telex, $4.75 for messenger service; every time a payment is made, the petty cash holder must collect a receipt, sales slip or create a voucher. At the end of the period, there should be $31.50 in cash remaining and vouchers for $18.50. These will be equal to the $50.00 original petty cash.

Figure 3-3
Petty Cash Voucher


Petty Cash Voucher

No. _____

Date _____ 19 _____

Amount _____

For _____

_____

_____

_____

_____

Charge _____

Cash given by _____

To _____

SIGNATURE

3.2 Replenishment

To replenish the petty cash, a cheque must be written for the total amount of the receipts issued since the last replenishment and the used vouchers. In the above example, a cheque for $18.50 payable to *(name of person) in trust for petty cash* would be prepared and signed by the authorized officer(s) (see Figure 3-4). Refer to Chapter 2 Appendix B for the entries in the Disbursements Journal.

The reason the cheque is written for the amount spent is to replenish petty cash to the authorized level. The receipts and vouchers should be entered in the books under the appropriate expenses heading in the Disbursements Journal. In the previous example, the $9.25 spent for stationery should be entered under Office Supplies, the $4.50 for telex should be entered under Telephone and Telex, the $4.75

spent for messenger services under Miscellaneous. Whenever the petty cash fund is reimbursed, the total cash should equal the original amount of the fund. In the previous example, the petty cash fund would once again total $50.00 in cash.

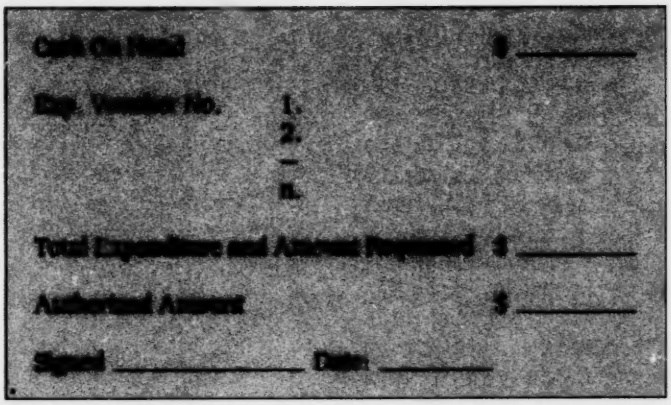
3.3 Closing Out the Petty Cash Fund

When closing out the petty cash fund, the petty cash fund should be reimbursed by the petty cash holder and the full amount deposited back into the bank account and the paid expenditures would be recorded in the Disbursements Journal as described in the previous section.

Conclusion

The efficient management of cash is closely related or interdependent with proper internal controls surrounding authorization for opening accounts, division of responsibilities in handling cash, recording and verifying transactions.

Figure 3-4
Request for Petty Cash Reimbursement



(1)
(2)
(3)

Note : 1 + 2 = 3

4

The purpose of this chapter is to briefly explain the depreciation of capital assets and to explain two methods of accounting for capital assets. The chapter closes by addressing the subject of inventory control systems.

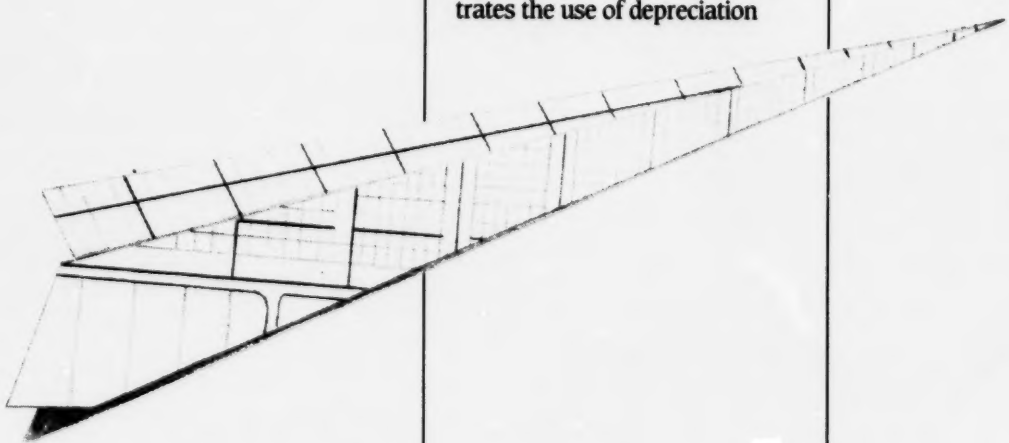
1. Depreciation

The decision to depreciate or not depends upon the source of funds used. If fixed assets are funded out of current resources, depreciation should be provided for because the wear and tear on these fixed assets is a real operating expense to that organization. On the other hand, if the fixed assets are donated, financed by a capital grant or special fund raising campaign, then recording depreciation can give a misleading picture with regard to operating results. Appendix A of this chapter illustrates the use of depreciation for better presentation of the financial situation of an organization.

Depreciation is a method of distributing or allocating the cost of a tangible capital asset, less any salvage value (if any) over the useful life of the asset. There are numerous methods of calculating depreciation. One of the more common methods is straight line depreciation.

Example

Assume an asset has a useful life of 10 years. The purchase price of the asset is $11,000 with a salvage value of $1,000 at the end of year 10. The depreciation would be calculated as follows:



Cost – Salvage Value – Depreciation # of useful years

Using this formula yearly depreciation would be:

11,000 – 1,000 = $1,000 depreciation/year 10 years

The entry to record the depreciation is as follows:

	Debit	Credit
Depreciation Expense – Asset-A	$1,000	
Accumulated Depreciation – Asset-A		$1,000

The $1,000 debit is an expense on the Revenue and Expenditure Statement and thus reduces net surplus by $1,000 (or increases net deficit by $1,000).

The $1,000 credit to the *Accumulated Depreciation Account* is used to offset the original cost of the asset.

In year 1, the asset would be shown as follows in the fixed asset section of the Balance Sheet:

Asset-A	$11,000	
Less Accumulated depreciation	1,000	$10,000

In Year 2, it would be as follows:

Asset-A	$11,000	
Less Accumulated depreciation	2,000	$ 9,000

For a more detailed look at the various methods of accounting for depreciation, an accounting textbook should be consulted.

2. Capitalize Only Method

2.1 Recording of Transactions

One method of recording a capital transaction is the *Capitalize Only Method*. Examples of the entries involved are as follows:

To record receipt of capital funds

	Debit	Credit
Bank	$500,000	
Capital Surplus – Bldg. funds		$500,000

Later when the funds are spent the entry is as follows:

To record purchase of building

	Debit	Credit
Building	$500,000	
Bank		$500,000

This entry sets up an *asset account* as opposed to an expense account (as in the method below).

In this method, the asset is capitalized and appears on the Balance Sheet. These assets are recorded at their cost value and a note to the financial statements is also included. This note would include the following information.

- major classes of fixed assets
- year of acquisition
- expected useful life.

This information must be provided as it is relevant to the users of the financial statements (management, board members) and helps in the decision making process (i.e. when to purchase new assets, planning cash flows for purchase of new assets, etc.).

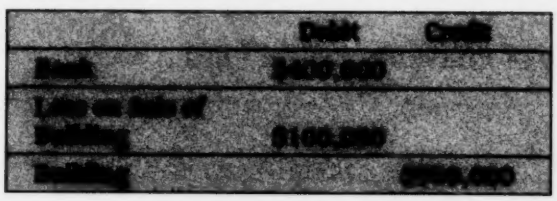
In the Capitalize Only Method, the organization can use one of two options available in reporting its capitalized assets in the financial statements. The first option is to capitalize the items and include them on the Balance Sheet. The second option is to have a separate set of financial statements where only the capital transactions are shown (see Appendix B of this chapter). It is also possible that some organizations will set a dollar limit to aid in the decision to capitalize an item or not (e.g. capitalize if cost is over $250).

2.2 Disposal of Capitalized Assets

To record the disposal of an asset which has been capitalized the asset account must be cleared and any gain or loss on the disposal must be shown in the Statement of Operations (which would then result in a change to the organization's equity position).

Example
Assume the $500,000 building is sold for $400,000. The entry to record the sale would be as follows:

To record sale of building and the resultant loss



This entry clears the asset account – Building on the Balance Sheet and the loss on sale of building account would be an item shown on the Revenue and Expenditure Statement. Thus the $100,000 loss would reduce overall equity through its effect on the Revenue and Expenditure Statement, if Option 1 of Appendix B is used. Under this option, the entry would reduce the Capital-Building account by the amount of $100,000 and the results of Operations would then adjust the Operating Equity Account.

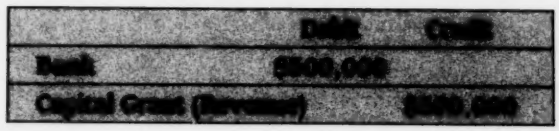
If Option 2 of Appendix B is used, the Statement of Change in Capital Assets would reflect a $100,000 loss which would reduce the Capital-Building account to $400,000 and the Building account would be cleared and in its place a Cash account of $400,000 would show up.

3. Immediate Expense Method

3.1 Recording of Transactions

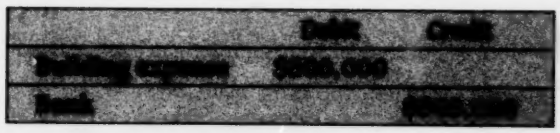
Recording of a capital transaction using the *Immediate Expense Method* is the least complicated method of showing capital assets. The asset is expended in the year of purchase. Examples of the entries involved are as follows:

To record receipt of capital funds (Capital Revenue)



Later in the year when the funds are spent the entry would be as follows:

To record the purchase of building



Instead of setting up an asset account in the general ledger, it would be recorded as *an expense*.

In this method, the asset is treated as any other type of current year expense and is charged to current year operations. The acquisitions would normally be shown on the statement of operations *after* the reporting of normal activities and would not appear on the Balance Sheet, except perhaps as a nominal amount of one dollar (see Appendix C of this chapter). The financial statements would also contain a note giving the same information as in the *Capitalize Only Method*. If this method is used, low value assets would also be expensed in the year of purchase.

3.2 Disposal of Assets

Here, the sale of the asset would be recorded as a *revenue* on the Revenue and Expenditure Statement and no adjustment to an asset account (other than cash) is necessary as no fixed asset account was ever set up (as the asset was expensed in the year of purchase).

4. Inventory of Assets

The purpose of an inventory of the fixed assets for an organization is to ensure proper control over the assets. In short, the inventory system lists all fixed assets in the organization's possession at any point in time. The assets to be included in the inventory system are those over a certain dollar amount. The particular dollar amount, above which an item should be included in the inventory system, should be established by the board of directors. It is recommended that all assets having a purchase price of $1,000 or more be recorded.

The inventory control consists in listing all fixed assets on hand and is updated as purchases are made or assets are disposed of. A ledger card should be prepared for each asset (see Figure 4-1). The information to record on the ledger cards is the following:

- Name of the asset and brief description
- Serial or catalogue number
- Location of asset
- Date of purchase
- Supplier's name
- Quantity
- Purchase price
- Unit cost (where applicable)
- Date of disposal (when applicable)
- Number of items disposed of (when applicable)
- Quantity on hand
- Total value on hand

The sum of dollar amounts recorded on the ledger cards is then reported on a control card at the time of the establishment of the inventory system. The control card will then be adjusted each time a ledger card is changed (value), a new ledger card is added or withdrawn. When a ledger card is withdrawn (indicating the disposal of a capital asset), it should be kept until the end of the accounting year as an audit trail.

Figure 4-1
Example of Inventory Ledger Card

Article: WORD PROCESSOR
Catalog No: 114573H2K
Maximum:
Minimum:
Location, Section: RECEPTIONIST'S DESK AT ENTRANCE
Bin No.:
Unit:

Received						Disbursed				Balance on hand	
Date	From (Name)	Quantity	Amount	Unit Cost	Date	No.	Quantity	Amount	Quantity	Amount
DEC 14/87	I.B.M.	1	1849 45						1	1849 45

The organization should have its own rules providing for the purchase and the disposal of fixed assets. For example, the board of directors' authorization may be necessary for the purchase and disposal of assets of $5,000 or more. For smaller items, this authority would be delegated to the Executive Director level.

If the organization chooses to depreciate its assets, it should record the depreciation of the relevant assets, at the end of each year, on the appropriate ledger card with a corresponding entry on the control card. Yearly, a manual count of the assets would be performed to ensure that the accounting data shown in the subsidiary ledger cards and the control card match.

The maintenance of the inventory system is important to an organization because the fixed assets represent a significant investment of cash resources. It is also useful for insurance purposes.

Conclusion

The depreciation of assets is quite important for most of the associations since it reflects the source of capital funding and acknowledges the wear and tear of the assets. It is also a useful indicator in determining which action the organization should take to ensure replacement without causing a financial burden at the time of replacement.

Appendix A

Association XYZ
Effect of Depreciation on the Operating Results
Assets Purchased with Capital Grant

	With Depreciation		Without Depreciation	
Revenue	**Year 1**	**Year 2**	**Year 1**	**Year 2**
Normal yearly revenue	300,000	300,000	300,000	300,000
Capital grant	500,000	0	500,000	0
Total revenue	800,000	300,000	800,000	300,000
Expenditures				
Normal yearly expenditures	300,000	300,000	300,000	300,000
Depreciation*	100,000	100,000	0	0
Expense asset year of purchase	–	–	500,000	–
Total expenditures	400,000	400,000	800,000	300,000
Surplus (deficit)	400,000	(100,000)	0	0

*Calculated at 20% of original asset value, i.e. straight line depreciation.

In the above example, the Association XYZ received a capital grant for the purchase of the asset. Since current resources do not fund the purchase of the asset, it is not relevant to show depreciation. As can be seen, if depreciation was calculated, the association would realize a surplus of $400,000 in year 1 and a deficit of $100,000 in year 2 while the no-depreciation method would not produce a surplus or deficit for either year 1 or year 2. The no-depreciation method is preferred because it produces a more consistent reporting of the results of the operations of the organization.

Appendix A (cont'd)

Association XYZ
Effect of Depreciation on the Operating Results
Assets Purchased with Current Funds

	With Depreciation		Without Depreciation	
Revenue	**Year 1**	**Year 2**	**Year 1**	**Year 2**
Normal yearly revenue	300,000	300,000	300,000	300,000
Total revenue	300,000	300,000	300,000	300,000
Expenditures				
Normal yearly expenditures	250,000	250,000	250,000	250,000
Depreciation*	10,000	10,000	0	0
Expense asset year of purchase	–	–	50,000	–
Total expenditures	260,000	260,000	300,000	250,000
Surplus (deficit)	40,000	40,000	0	50,000

*Calculated at 20% of original asset value, i.e. straight line depreciation.

In this example, the use of depreciation produces more equitable reporting results. As one can see, there is no fluctuation to the surplus account (on a yearly basis); whereas under the no-depreciation approach, the association must bear the full purchase (cost) of the asset in year 1 which causes a fluctuation in the operating results of the association. The depreciation method is therefore the preferred method.

Appendix B

Capitalize Only Method – Option 1
XYZ Company
Balance Sheet

I – Original Purchase

Assets			**Liabilities**		
Current Assets			***Current Liabilities***		
Cash	$xxx		Accounts payable	$xxx	
Receivable	xxx	$xxx	Note payable	xxx	$xxx
Fixed assets			**Total Liabilities**		$xxx
Building	$500,000	$500,000	**Equity**		
			Capital-Building	$500,000	
			Operation surplus	xxx	$xxx
			Total Equity		$xxx
			Total Liability and		
Total Assets		$xxx	**Equity**		$xxx

II – Statement After Disposal of Building

Assets			**Liabilities**		
Current Assets			***Current Liabilities***		
Cash	$xxx		Accounts payable	$xxx	
Receivable	xxx	$xxx	Note payable	xxx	$xxx
			Total Liabilities		$xxx
			Equity		
			Capital-Building	$400,000	
			Operation surplus	xxx	$xxx
			Total Equity		$xxx
			Total Liability and		
Total Assets		$xxx	**Equity**		$xxx

Appendix B (cont'd)

Capitalize Only Method – Option 2
XYZ Company

Assets			**Liabilities**		
Current Assets			***Current Liabilities***		
Cash	$xxx		Accounts payable	$xxx	
Receivable	xxx	$xxx	Note payable	xxx	$xxx
			Equity		
			Operating surplus		$xxx
Total Assets		$xxx	**Total Liabilities to Equity**		$xxx

Statement of Change in Capital Assets (Before the sale)

Assets		**Equity**	
Building	$500,000	Capital-Building	$500,000
Total Assets	$500,000	**Total Equity**	$500,000

Statement of Change in Capital Assets (After the sale)

Assets		**Equity**	
Cash	$400,000	Capital-Building	$400,000
Total Assets	$400,000	**Total Equity**	$400,000

Note The Capital Account would also have its own Revenue and Expense Statement in which the $100,000 loss would be reflected.

Appendix C
XYZ Company
Immediate Expense Method

Revenues	$300,000
Expenditures	300,000
Surplus/(Deficit) before capital additions	0
Capital Additions	
Contributions	500,000
Purchases – building	500,000
Capital Surplus/(Deficit)	0
Total Surplus (Deficit)	0

5

Financial statements are prepared to summarize the voluminous accounting data into managerial reports. These reports are, in return, used by management, or any other party having an interest in the organization, to assess the short and long term viability and the financial strength of the organization.

At the end of each accounting period, financial statements are prepared to report on an organization's financial activities during that period and its financial position at the end of the period. In most organizations, financial statements are produced annually and periodically throughout the year.

The audited financial statements are normally prepared by qualified, independent accountants and usually include the following:

- Statement of Revenue and Expenditure
- Balance Sheet
- Statement of Changes in Financial Position
- Notes to Financial Statements
- Auditor's Report.

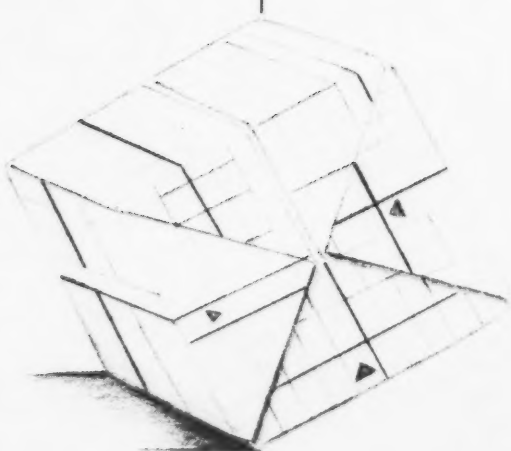
The monthly, bi-monthly or quarterly financial statements are prepared by the organization and include the following:

- Statement of Revenues and Expenditure
- Balance Sheet
- Explanatory Notes.

The **Balance Sheet** is a formal concise statement of the financial position of an organization showing assets, liabilities and the organization's equity (either in a surplus or deficit position) as at a *specific date*.

The **Statement of Revenue and Expenditures** is a financial statement summarizing the item of revenue and expenditure incurred for a *stated* period.

The **Statement of Changes in Financial Position** shows, for a *stated* period, how the activities of the organization have been financed including the extent to which funds have been generated from operations, how the financial resources have been used and the effects of these activities on the funds of the organization.



The **Notes to Financial Statements** provide information on some key issues to help the reader understand the financial statements. They can include, among other things:

- major accounting policies
- details on the legal structure of the organization
- expenditure restriction
- contingent liabilities
- details concerning the Income Tax Act
- detailed explanations regarding certain items in the financial statements
- details on possible losses (lawsuits, for example).

The **Auditor's Report** expresses an opinion (unqualified, qualified or denial of opinion) on the accuracy of the financial statements, as well as the reasons supporting the opinion.

1. The Balance Sheet

The balance sheet is like a snapshot taken of an organization at a given moment. It shows the financial situation at a specific date. Thus, one must remember when examining the balance sheet that the situation could have changed since it was drawn up, depending on the time elapsed. It includes assets, liabilities and equity.

The assets represent everything the organization owns in the form of goods and securities. The assets are listed in order of liquidity, that is, based on the time it would take to convert them into cash. There are two main categories: current assets and fixed assets. Current assets include items such as cash, term deposits, accounts receivable, etc. while fixed assets are equipment, building, land, etc.

The liabilities represent all debts of the organization. Current liabilities are accounts payable, term loans which are normally payable within a year, while long-term liabilities include items such as mortgages.

The equity represents the organization's capital; it includes surpluses from activities in the current and preceding years. A Balance Sheet format is shown in Figure 5-1.

1.1 Analysis

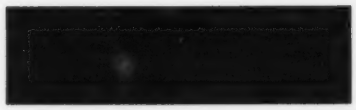
The analysis of the Balance Sheet can be carried out by using ratios or by comparing current to prior period results.

For non-profit organizations, it is usual to present Balance Sheet figures from the previous year along with the Balance Sheet figures of the current year.

1.1.1 *Liquidity*

The liquidity analysis is to determine whether an organization has enough resources to meet its current liabilities (debts).

The working capital, that is, the current assets minus the current liabilities, is often used for this purpose. The availability of working capital is essential for an organization to ensure that its current liabilities can be met and also readily enables it to obtain financing.



The liquidity of an organization can also be expressed as a ratio. It is called the "Liquidity Ratio" and is calculated as follows:

A ratio of 1.00 indicates that the organization can pay off all its current liabilities out of its current assets although a ratio of 1.50 is usually considered satisfactory. A ratio of less than 1.00 indicates that an organization is likely to encounter serious difficulty in meeting its short term obligations which may translate into additional borrowing and, hence, additional interest costs.

1.1.2 *Receivables*

Various types of accounts receivable such as loans and advances must be examined to determine if some require immediate corrective action.

Travel advances should be accounted for within 10 days following the end of the trip. If money is to be reimbursed by the employee, it must be refunded immediately; if no refund is remitted, the organization must take action to deduct the money owed from the employee's salary according to the organization's policy.

Figure 5-1
Balance Sheet Format

Association ABC
Balance Sheet
March 31, 19

Assets	Current Year	Previous Year	**Liabilities**	Current Year	Previous Year
Current Assets			***Current Liabilities***		
Cash	$XXX	$XXX	Accounts payable	$XXX	$XXX
Term deposits	XXX	XXX	Term loan	XXX	XXX
Accounts receivable	XXX	XXX	Total-Current Liabilities	$XXX	$XXX
Prepaid expenses	XXX	XXX	***Long-term Liabilities***		
Total Current Assets	$XXX	$XXX	Mortgage	$XXX	$XXX
			Total Long-Term Liabilities	$XXX	$XXX
			Total Liabilities	$XXX	$XXX
Fixed Assets			**Equity**		
Land	$XXX	$XXX			
Building $XXX		$XXX	Cumulative surplus	$XXX	$XXX
Less: depreciation XXX	XXX	XXX	Capital surplus	XXX	XXX
Equipment $XXX		$XXX	Total Equity	$XXX	$XXX
Less: depreciation XXX	XXX	XXX			
Total Fixed Assets	$XXX	$XXX			
Total Assets	$XXX	$XXX	**Total Equity and Liabilities**	$XXX	$XXX

Note: Total assets must always equal the sum of liabilities and equity.

Salary advances must be recovered as quickly as possible, preferably from the next pay period. Such advances should be limited and must be the subject of a formal policy.

1.1.3 *Liabilities*

Current liabilities should be monitored to identify those payments which require immediate action to avoid additional interest costs. Similarly, those accounts offering discounts should be paid in time to take advantage of the discount.

Long term debt must be monitored at least at the beginning of each year to ensure the availability of cash when required.

2. The Statement of Revenue and Expenditure

2.1 Analysis

2.1.1 *Revenue and expenditure items*

These items should be examined to see if the corresponding amounts are reasonable in view of the activities or services involved.

2.1.2 *Trend analysis*

A comparison with prior period results will show trends, both in revenue and expenditure items and in surpluses or deficits. Examining these trends helps the organization to forecast future results.

2.1.3 *Budgetary comparisons*

This comparison makes it possible to ensure that the organization has not strayed too far from the budget approved by the board of directors.

Large variances require in-depth analysis. It is important to determine their causes and take the necessary corrective action. Both positive and negative variances should be examined. Refer to Chapter 1, section 5 for further explanation.

3. Periodic Financial Statements

In most cases, the organization, rather than its accounting firm, has the responsibility for periodic statement presentation. They normally include a Statement of Revenues and Expenditures and a Balance Sheet. The purpose of the statements is exactly as described above; however, they cover a shorter time period. The requirement for periodic statements varies from organization to organization and may be as frequent as once a month or, as in many instances, on a quarterly basis throughout the year.

The requirement for monthly or bi-monthly financial statements could stem from the necessity of an organization's board of directors to have at their meetings pertinent financial data which enables them to make accurate and timely decisions. Quarterly financial statements in many instances are required by funding departments and agencies. This financial information will allow the donor departments or agencies to follow an organization's progress throughout the year and provide advice and technical assistance if problems arise.

3.1 Preparation of Periodic Financial Statements

The following example shows how to prepare quarterly financial statements. When preparing periodic statements, it is not necessary to post any journal entries to the General Ledger that need to be reversed shortly afterwards.

3.2 Preparation of the Worksheet

3.2.1 *Trial Balance of the General Ledger*

At the end of an accounting period, after the totals for the current month have been posted to the General Ledger accounts, a trial balance is taken. It is prepared by taking each account balance from the General Ledger, listing it as either a debit or a credit and ensuring that the sum of the debits equals the credits. If it does not, there has been an error in posting in one or more of the accounts (see Appendix A of this chapter).

3.2.2 *Adjusting entries*

Any necessary adjusting entries are made (i.e. converting the accounts from the cash to the accrual basis) and are numbered and recorded on the worksheet or on a separate sheet and attached to the worksheet.

The following are several of the most common types of adjusting entries required in the preparation of periodic statements:

Accounts Receivable: At the end of an accounting period, the association may have revenue which it has earned but not yet received. In such cases an adjustment is required to set up this amount as an account receivable and include it as revenue for the period in the proper revenue accounts.

Accounts Payable: The amounts owing to creditors at the end of an accounting period for goods or services purchased must be included in the proper expenditure account, as they are legally payable when the goods or services were received. This requires an adjustment setting up an amount payable at the end of an accounting period and increasing the related expenditure accounts.

Deferred Revenue: In some cases an association may receive grants or other revenue covering a period longer than the accounting period for which financial statements are being prepared. A portion of this revenue therefore may apply to the subsequent accounting period. An accounting entry is required to reduce the current revenue figure and to record the deferred revenue as a liability at the end of the accounting period.

Prepaid Expenses: An entry similar to the one above may be required for expenditures. For example some services such as insurance or municipal taxes may be billed annually or in advance. The expenditure may cover a period longer than the one for which financial statements are being prepared. In these cases, an adjustment is required to record these items as prepaid expenses and to reduce the current period's expenses accordingly (see Appendix B of this chapter).

3.2.3 *Adjusted Trial Balance*

This is a carry-forward of the trial balance with the adjusting entries included. Again, the total debits must equal the total credits. If not, there has been an adding error on the carry-forward or in the adjusting entries or some debits/credits have been extended in the wrong columns.

All data can be assembled on a 14 column spread sheet, including a list of the applicable journal entries. It is then relatively easy to prepare the Statement of Revenue and Expenditures and the Balance Sheet at period end.

3.3 Revenue and Expenditures and Balance Sheet

The account balances in the adjusted trial balance are carried-forward to the proper debit and credit columns as assets, liabilities, revenues and expenditures. In the example, you will note that the revenues or credits exceed expenditures or debits and the balancing amount is the surplus on operations to September 30, 19 . This surplus is carried forward to the Balance Sheet. The formal financial statements can now be prepared directly from the worksheet (see Appendices C and D of this chapter).

The steps in preparing periodic financial statements are as follows:

Step 1	Take a trial balance of all the General Ledger's accounts
Step 2	Convert the records from the cash to the accrual basis by journal entry
Step 3	Set up the Statement of Revenue and Expenditures and the Balance Sheet from the adjusted trial balance
Step 4	Prepare the financial statements from the applicable worksheet columns.

Conclusion

The importance of timely, accurate and complete financial statements cannot be overly stressed. Anyone faced with the necessity of making a financial decision whether as an organization's executive officer, member of the board of directors, or funding agency must have the necessary information which is contained in the financial statements. All organizations large or small with simple or complex accounting systems must produce useful financial statements which serve their needs and other parties interested in the operations and financial position of the organization.

Appendix A
Association ABC
Work Sheet as at September 30, 19

ASSOCIATION ABC
Work Sheet as at September 30, 19..

	TRIAL BALANCE DR	TRIAL BALANCE CR	ADJUSTING ENTRY DR	ADJUSTING ENTRY CR	ADJUSTED TRIAL BALANCE DR	ADJUSTED TRIAL BALANCE CR	REVENUE AND EXPENSES DR	REVENUE AND EXPENSES CR	BALANCE SHEET DR	BALANCE SHEET CR
ASSETS										
Petty Cash	100 00				100 00				100 00	
Cash in Bank	27543 03				27543 03				27543 03	
Accounts Receivable			65 00		65 00				65 00	
Employee Advances	200 00				200 00				200 00	
Inventories										
Prepaid Expenses										
Furniture and Fixtures	5238 40				5238 40				5238 40	
Equipment	3796 15				3796 15				3796 15	
Leasehold Improvements	7218 00				7218 00				7218 00	
Building										
Land										
LIABILITIES										
Accounts Payable				139 21		139 21				139 21
Remittance Payable				2757 60		2757 60				2757 60
Long-term Loans Payable		1500 00				1500 00				1500 00
Deferred Revenue				2368 00		2368 00				2368 00
EQUITY										
Equity in Fixed Assets		16252 55				16252 55				16252 55
Surplus (Deficit)		700 25				700 25				700 25

2

07-512

ASSOCIATION ABC

Work Sheet as at September 30, 19..

	TRIAL BALANCE DR	TRIAL BALANCE CR	ADJUSTING ENTRY DR	ADJUSTING ENTRY CR	ADJUSTED TRIAL BALANCE DR	ADJUSTED TRIAL BALANCE CR	REVENUE AND EXPENSES DR	REVENUE AND EXPENSES CR	BALANCE SHEET DR	BALANCE SHEET CR
REVENUE AND EXPENSES										
01 - Administration										
Federal Government		9295 00				9295 00		9295 00		
Municipal Government		360 00				360 00		360 00		
Miscellaneous Revenue		352 11		65 00		359 11		359 11		
Salaries and Benefits	37285 43		1688 69		38974 12		38974 12			
Travel	5616 08		44 60		5660 68		5660 68			
Rent	4800 00				4800 00		4800 00			
Telephone, Telex	3432 51		112 13		3544 64		3544 64			
Utilities	2854 14				2854 14		2854 14			
Office Supplies	5893 78		162 00		6055 78		6055 78			
Equipment	1500 00				1500 00		1500 00			
Repair and Maintenance	2374 86				2374 86		2374 86			
Printing, Copying	2562 68		78 30		2640 98		2640 98			
Meetings, Conferences	12474 90				12474 90		12474 90			
Legal, Audit, Prof. Services	6400 00				6400 00		6400 00			
Insurance	773 50				773 50		773 50			
Bank Charges, Interest	831 83				831 83		831 83			
Miscellaneous	1211 15				1211 15		1211 15			

2

07-512

ASSOCIATION ABC

Work Sheet as at September 30, 19..

	TRIAL BALANCE DR	TRIAL BALANCE CR	ADJUSTING ENTRY DR	ADJUSTING ENTRY CR	ADJUSTED TRIAL BALANCE DR	ADJUSTED TRIAL BALANCE CR	REVENUE AND EXPENSES DR	REVENUE AND EXPENSES CR	BALANCE SHEET DR	BALANCE SHEET CR
REVENUE AND EXPENSES										
02 - COORDINATION										
Federal Government		35000 00				35000 00		35000 00		
Provincial Government		10000 00				10000 00		10000 00		
Miscellaneous Revenue		738 88				738 88		738 88		
Salaries and Benefits	20733 67		796 91		21530 58		21530 58			
Travel	2460 32		250 00		2710 32		2710 32			
Printing, Copying	1287 45				1287 45		1287 45			
Honoraria	500 00				500 00		500 00			
Meetings Conferences	21232 20				21232 20		21232 20			
03 - RESEARCH										
Federal Government		18000 00				18000 00		18000 00		
Provincial Government		11900 00	2368 00				9532 00	9532 00		
Salaries and Benefits	6884 74		272 30		7157 04		7157 04			
Travel	1684 12		783 18		2327 30		2327 30			
Equipment	1000 00				1000 00		1000 00			
Printing, Copying	783 25				783 25		783 25			
Meetings, Conferences	11885 40				11885 40		11885 40			
SUB-TOTAL	200977 77	200977 77	6580 71	6580 71	204670 80	204670 80	140530 82	173412 99	64139 98	31257 81
NET GAIN (LOSS) OVER EXPENDITURES	–	–	–	–	–	–	32882 17	–	–	32882 17
TOTAL	200977 77	200977 77	6580 71	6580 71	204670 80	204670 80	173412 99	173412 99	64139 98	64139 98

Appendix B
Association ABC
Work Sheet Journal Entries

ASSOCIATION ABC
Worksheet - Journal Entries

	DATE	DETAIL	J/E	1	2 DEBIT	3 CREDIT
1	Sept 30	Accounts Receivable	1		65 00	
2		Miscellaneous Revenue				
3		- Administration				65 00
4						
5		Revenue receivable re: Photocopy				
6		Rental				
7						
8	Sept 30	Travel Expense - Administration	2		44 60	
9		Travel Expense - Coordination			250 00	
10		Travel Expense - Research			744 18	
11		Telephone and Telex			1 12 13	
12		Office Expense			1 62 00	
13		Printing and Copying			78 30	
14		Accounts Payable				1 390 21
15						
16		To record accounts payable				
17		as at September 30th				
18						
19	Sept 30	Provincial Government Revenue	3			
20		- Research			2368 00	
21		Deferred Income				2368 00
22						
23		To record unexpended portion				
24		of Provincial Grant for the				
25		Research Program and to set				
26		up deferred revenue.				
27						
28	Sept 30	Salaries and Benefits - Administration	4		1 48 85	
29		Salaries and Benefits - Coordination			796 91	
30		Salaries and Benefits - Research			272 10	
31		Remittance Payable -				
32		Receiver General				2757 60
33						
34		To record remittances payable				
35		to the Receiver General for				
36		the month of September				
37						
38						

Appendix C
Association ABC
Balance Sheet as at September 30, 19

Assets

Current Assets			
Petty cash		$ 100.00	
Cash in bank		27,543.03	
Accounts receivable		65.00	
Employee advances		200.00	$27,908.03
Fixed Assets			
Furniture and fixtures		$ 5,238.40	
Equipment		3,796.15	
Leasehold improvements		7,218.00	16,252.55
Total Assets			$44,160.58

Liabilities and Equity

Current Liabilities			
Accounts payable	$ 1,390.21		
Remittances payable	2,757.60		
Bank loan	1,500.00	$ 5,647.81	
Deferred Revenue		2,368.00	
Total Liabilities			$ 8,015.81
Equity			
Equity in Fixed Assets		$16,252.55	
Surplus Balance April 1, 19	7,009.25		
Excess of Revenue over Expenditures September 30, 19	12,882.97	19,892.22	
Total Equity			$36,144.77
Total Liabilities and Equity			$44,160.58

Appendix D

Association ABC
Statement of Revenue and Expenditures – Administration and Services to the Community
For the period ended September 30, 19

Revenue	
Federal Government	$ 92,950.00
Municipal Government	3,600.00
Sundry/Other Revenue	3,592.11
Total Revenue	$100,142.11
Expenditures	
Salary and Benefits	$ 38,974.02
Travel	5,660.68
Rent	4,800.00
Telephone/Telegraph/Telex	3,544.64
Utilities	2,854.14
Office Supplies	6,055.78
Repairs and Maintenance	2,394.86
Equipment	1,500.00
Printing and Copying	2,640.98
Meetings and Conferences	12,474.90
Legal and Professional Charges	6,400.00
Insurance	773.50
Bank and Service Charges	831.83
Miscellaneous	1,211.15
Total Expenditures	$ 90,116.48
Surplus/(Deficit)	$ 10,025.63

Appendix D (cont'd)

Association ABC
Statement of Revenue and Expenditures – Co-ordination
For the period ended September 30, 19

Revenue	
Provincial Government	$ 10,000.00
Federal Government	35,000.00
Miscellaneous Revenue	738.88
Total Revenue	$ 45,738.88
Expenditures	
Salary and Benefits	$ 21,530.58
Travel	2,710.32
Printing and Copying	1,287.25
Honoraria	500.00
Meetings and Conferences	21,232.20
Total Expenditures	$ 47,260.35
Surplus/(Deficit)	$(1,521.47)

Appendix D (cont'd)

Association ABC
Statement of Revenue and Expenditures – Research
For the period ended September 30, 19

Revenue	
Federal Government	$18,000.00
Provincial Government	9,532.00
Total Revenue	$27,532.00
Expenditures	
Salary and Benefits	$ 7,157.04
Travel	2,327.30
Equipment	1,000.00
Printing and Copying	783.25
Meetings and Conferences	11,885.60
Total Expenditures	$23,153.19
Surplus/(Deficit)	$ 4,378.81

6

This chapter outlines the components of internal control within an organization and suggests the minimum standards acceptable for any organization. The components discussed in this chapter are the organizational, accounting and financial controls.

1. Definition

Internal controls help minimize waste, fraud and theft of assets, increase accuracy and reliability of accounting data and promote efficient operations. As defined by the Canadian Institute of Chartered Accountants (CICA):

Internal control comprises the plan of organization and all the co-ordinate systems established by the management of an enterprise to assist in achieving management's objective of ensuring, as far as practical, the orderly and efficient conduct of its business, including the safeguarding of assets, the reliability of accounting records and the timely preparation of reliable financial information.

The next pages will attempt to translate this definition into practical means of ensuring the implementation of an adequate internal control system.

2. Organizational Control

Organizational control is achieved by setting up a formal organizational structure to delegate duties and responsibilities to duly appointed persons. The structure should be sufficiently

flexible to be responsive to its environment and must be subject to regular assessments, perhaps annually, to ensure that it still corresponds to the needs of the organization and those segments of the population it serves.

2.1 Formal Organizational Structure

An example of an organizational structure could be a board of directors, an executive and the employees (see Figure 6-1). Small organizations have a lesser need for a rigid organization; a participant, in such organizations, might assume more than one responsibility.

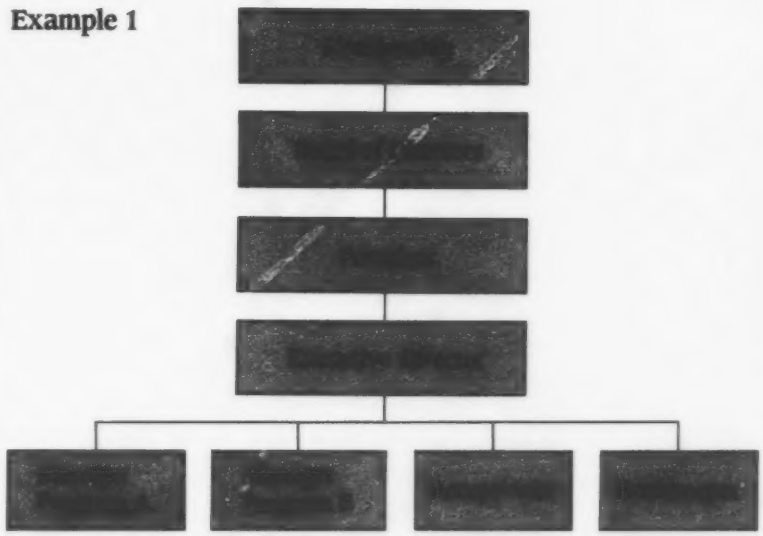
The elected board, the legally constituted controlling group of the organization, ensures the fulfilment of the organization's objectives during the time of its mandate, makes all key decisions and sees that they are implemented.

The mandate of the board is to:

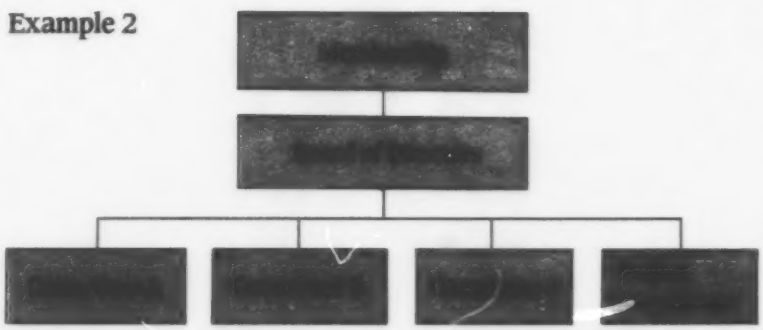
- approve long-range and short-range plans
- approve all policies of the organization
- hire an executive to implement its decisions and carry them out
- establish lines of authority and approve the proper level of delegation.

Figure 6-1
Examples of Organizational Structures

Example 1



Example 2



The board exercises its control by means of:

- regular meetings
- approval of the organization's structure and policies
- written documentation of all board decisions which are relayed to the organization's executive
- requests for information, including timely financial statements, from the executive to ensure its decisions are effectively implemented.

The board, therefore, has the power to make key decisions but does not implement them; rather, it appoints an executive to administer the affairs of the organization in accord with the board's policies.

2.2 Principles of Organizational Structure

An organization cannot be effective without a basic structure having the following principles of organizational design:

Responsibility – each person in the organization is required to act in accordance with the duties assigned and the authority granted. Failure to do so compromises the hierarchy of control and ultimately will affect the ability of the board of directors to exert influence on the direction of the organization.

Division of responsibility – all activities are broken down by function. This results in *programs*: some with direct or *line* responsibility and others with a support function or *staff* responsibility (for example: personnel, administration, accounting).

Authority – every program is headed by only one person who is responsible for all those below. Conversely, each manager is answerable only to one person immediately above in the organization structure. Delegation of authority within the organization permits complex affairs of an organization to be administered co-ordinately.

The above principles will ensure an orderly decision-making process and an effective administration of the whole organization.

3. Accounting Control

A major objective of accounting control is to ensure the safeguarding of assets and the reliability of financial records. It encompasses two main areas:

- ensuring that all transactions are recorded in accordance with the accounting principles; this brings about the accurate recording and summarizing of financial transactions
- internal checks are required to safeguard assets against defalcation or other avoidable losses; it essentially involves procedures for separating responsibility for physical possession of assets from the process of accounting for transactions involving those assets.

3.1 Conditions for Accurate Recording and Summarizing of Transactions

Within an accounting system, certain conditions must be met if internal control objectives are to be achieved. Here are the conditions which must exist before control is possible.

- **Systemization** – this exists when the double entry bookkeeping method of accounting is implemented. Implicit in this type of accounting system is a supporting set of records which are organized to document all related transactions. Systemization also requires a formal procedures manual outlining tasks and assignments of responsibilities within the organization. The procedures manual must define areas of authority, limitations on exercise of authority and procedures for accomplishing tasks. Most importantly for the integrity of the accounting system, the procedures manual must specify the approval process of transactions. The specification of who can expend the resources of the organization and under what circumstances is a critical step in the development of internal control.

- **Competence and Integrity** – while it is necessary to have control procedures, they are useless unless the people assigned to carry them out do so conscientiously and consistently.

- **Documentation** – there must be proper documentation to show that the transactions were legitimate and initiated by a person with the authority to do so.

3.2 Methods of Controlling Accounting Operations

Accounting operations are controlled by:

- Validation Operations
- Checks and Balances

3.2.1 *Validation Operations*

There are four main techniques of validation operations which will ensure reliable accounting data.

Authorization: primary control of operations is maintained through the act of authorization. No action, decision or transaction is valid unless it is approved in accordance with the delegation of authority within the organization. This process ensures that only legitimate and appropriate transactions are executed. For example, if the issuance of a cheque requires two pre-authorized signatures, it cannot be issued without them. Travel advances which cannot be issued unless authorized in writing by an officer having received delegation of this authority is another example.

Reconciliation: monthly reconciliation identifies differences between two different sets of records. Some of the most common reconciliations are bank reconciliations, cash reconciliations and inventory checks.

Validity Checking: validity checking refers to the process of verifying the completion of steps in a transaction before proceeding to the next step. For example, before a cheque is issued, a purchase order and a receiving document must be matched to an invoice. Another example is the use of standard price lists and checking invoices to the standard before paying an invoice. Validity checking may be performed by supervisors, delegated to clerks or built into a computer system.

Pre-Audit: pre-audit involves the examination of transactions before processing. An examination of the invoice and the purchase order as to price and quantity, prior to the issuance of a cheque to a supplier, is an example.

3.2.2 *Checks and Balances*

Five main techniques of checks and balances are:

Numerical Sequencing – documents, numbered in numerical sequence (eg. 1, 2, 3, etc.), permit control of source documents and establish a method of ensuring that transactions are not lost or changed during processing. Examples are the use of pre-numbered cheques and purchase orders.

Control Totals – a control total can be established which is a tally of certain numbers unique to each document being processed. A control total will be the same before processing as after. If not, it is a signal that a processing error has occurred. For example, the total amount of all cheques issued in one day should equal the amount of expenditures recorded as paid.

Holding Files – a holding file may be created to hold all uncompleted transactions of a similar nature. As transactions are completed, the document is removed from the file. In this way, all uncompleted transactions may be identified at a glance. An example is the use of a *Due date* file for accounts payable where these accounts are filed per calendar day.

Reminder Lists – non-routine procedures may be triggered through reminder lists. This applies to monthly, quarterly, semi-annual and annual requirements as well. Though an obvious and elementary tool, the value of reminder lists should not be overlooked in systems design and as a tool of internal control.

Double-Checking – this is simply one person checking another person's work. For instance, a supervisor may wish to recount the amount of the deposit after the deposit slip is prepared by the accounting clerk.

3.3 Internal Organizational Checks

Internal checks are accounting procedures and physical controls and statistical controls that safeguard assets against defalcation or other avoidable losses. Internal checks are based on separating the physical control of assets from the process of recording transactions involving those assets. Methods of implementing internal checks are described below.

Segregation of Duties – if more than one person is involved in a given operation, the possibility of fraud is reduced, as no one person can alter the operation without co-operation from others, the temptation of people to act alone is eliminated. For example at all times the organization should ensure that two persons open the mail where money is received. Another example is to segregate the recording of transactions from the reconciliation function.

Restricted Access – for example, the accessibility of accounting books and records should be restricted. The use of a safe to safeguard either cash or important documents (accounting books and others) is another example.

Supervisory Controls – supervisory checks can be built into a system as an automatic check of one person by another. Supervisory checks may also be superimposed on the work process. By requiring that the work of a unit should be the responsibility of one person who signifies approval through initials, etc., an effective motivator is introduced into the work place.

Independent Check/Internal Audit – all operating systems should be validated annually by independent professionally recognized auditors. One of the main purposes of such auditors is to assess the effectiveness of the internal control function.

4. Financial Control

The objectives of financial control are visibility, accountability and control.

Visibility – it refers to the selection of reporting techniques that will make visible to those who manage an organization the information they require to make decisions. For example, financial reports should be detailed enough to provide the manager with full disclosure of the use of the funds.

Accountability – costs must be traced to those people with delegated spending authority so that responsibility for financial performance may be established. Financial reports per program or project is a good example.

Control – information regarding financial results is used to identify whether or not funds are expended efficiently; if not, corrective action should be initiated.

Financial control should not take precedence over all other objectives; it should be viewed as a means to an end rather than an end in itself. The importance of financial control, however, cannot be overlooked. However, it is unlikely that the objectives of an organization can be achieved if no orderly and effective means exist by which resources are expended over the course of a fiscal year. For the purposes of financial control, the following are minimum requirements:

- a designated financial year which is preceded by a planning process which yields an annual budget
- planning for a given financial year must take into account the results of operations in previous years
- the responsibility for the budget must be delegated in accordance with the organization's structure and lines of authority
- as expenses are incurred, costs must be traced to the units or persons responsible for them and compared with the budget. If corrective action is required, those responsible must take such action. Hence, a formal follow-up plan must be established.

5. Accounting Principles

An organization is a group of people joined together to achieve common objectives. To keep its operations in an orderly fashion, the organization allocates different responsibilities to its participants. For example, someone would be responsible for its financial dealings, another for developing and implementing an accounting system to provide its participants with information for administering its business.

Accounting is a technique whereby an organization formalizes its dealings with other parties and processes the data related to its financial transactions into coherent information. The accounting system an organization chooses to use should adhere to some of the basic accounting principles which are often called the *Generally Accepted Accounting Principles*. The primary purpose of accounting principles is to develop common agreement on accounting matters. The most widely accepted principles are described briefly below.

The **business entity principle** means that an organization is a distinct entity and its affairs are distinguished from those of its owners or members; thus, the need for separate accounting systems and the need to segregate the business of the organization from its participants.

The **going concern principle** assumes that an organization will continue indefinitely. It implies that an organization will continue in existence long enough to carry out present plans and meet contractual commitments. It also requires the organization to maintain permanent records of its operations.

The **monetary principle** assumes money to be a useful measuring unit for reporting the effect of business transactions. Money is thus the common denominator throughout the accounting process. If measurement cannot be expressed in monetary terms, a possible alternative method of communication is to use explanatory notes to the financial statements.

The **time-period principle** refers to the need for timely reports at regular intervals.

The **cost principle** is a pervasive concept that affects the accounting and financial system. Cost is assumed to be the proper basis of accounting for assets acquired, for goods received and for the interests of creditors and members of an organization. Completed transactions are the events to be recognized and made part of the accounting records under the cost principle.

The **conservatism principle** holds that accountants, in preparing estimates and opinions and in the writing of procedures, should choose those that neither unduly understate nor overstate the situation.

The **matching principle** means that after the revenue for an accounting period has been determined, the costs associated with that revenue must be deducted to measure net income.

The **objectivity principle** requires that accounting should be based on objective evidence and documentation.

The **consistency principle** ensures the comparability of the financial statements of an organization from period to period.

The **disclosure principle** requires that financial statements be complete in the sense of including all information necessary for a fair presentation.

Conclusion

The degree of internal control determines the degree of reliability of the documents and reports which an accounting system produces. Weaknesses in internal control do not necessarily result in errors or defalcations, but merely make them possible. The above internal controls, properly implemented, will ensure the safeguard of assets, prudence and integrity of the expenditure system while the accounting principles will guide an organization in determining the financial framework required to conduct its operations.

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The Financial and Accounting Guide for Non-Profit Organizations will give to the users a better understanding of their financial environment and make them aware of the importance of proper financial reporting.

The basic notions in accounting and finance introduced in this guide will assist the organizations in setting up and operating their own accounting system capable of producing adequate financial reports. Meaningful financial information leads to better decisions and helps improve the overall financial health of the organization.

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